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Pre-budget consultations

Comité permanent des affaires  
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Consultations prébudgétaires



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Clerk: Todd Decker

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday 21 January 1991

The committee met at 1335 in room 228.

### PRE-BUDGET CONSULTATIONS

**The Chair:** Before we begin hearing from the Ministry of Treasury and Economics, I would like to ask Mr Decker to make a report. We had asked originally, through agreement of the subcommittee, to have the Bank of Canada make a report today and for John Crow or one of his assistants to come and speak to us. I would like to ask Mr Decker to give us an update as to that situation and what happened.

**Clerk of the Committee:** At the direction of the subcommittee, I did contact the governor's office of the Bank of Canada and was informed that the governor himself was planning a trip to Australia later this month and was in intensive briefings for that and therefore would not be able to accept the committee's invitation. Apparently, some thought was given to allowing either an assistant governor or someone else from the governor's office to come and meet with the committee, but ultimately they declined the committee's invitation.

### MINISTRY OF TREASURY AND ECONOMICS

**The Chair:** I would like to introduce members from the Ministry of Treasury and Economics. Is it Bryan Davies, the deputy minister?

**Dr Christie:** I am sorry, the deputy minister could not be here. My name is Bob Christie. I am the assistant deputy minister in the office of economic policy and I will be co-ordinating our discussion. Qaid Silk is the director of our economic forecasting branch, and David Trick is the director of our demographics and social economics branch. We have a small handout that may assist the members of the committee in terms of going through the material that we came here to discuss.

**Mr Phillips:** I hope we are all into speed reading.

**Dr Christie:** You know us too well. There is no GST on this material, I might add.

**The Chair:** I trust it is printed on both sides.

**Dr Christie:** It will be next time. Your comment has been noted.

Everyone has a copy. Page 1 provides a summary of Ontario's economic outlook as presented in the paper released early in December. You will note that we expect in this outlook very marginal growth performance next year, now this year, with no job creation after a loss of 12,000 jobs in 1990, an unemployment rate that rises a full per cent to 7.3% in 1991 and a CPI inflation rate of 6.1%, up from below 5% in 1990.

The economic recovery from recession in this outlook is expected to commence by the middle of the year, but the risk, I think, fairly clearly, as indicated in that document and by some of the comments we will make here today, is

for a recession that lasts longer and for a recovery that begins later than indicated here.

The unemployment rate clearly, as I have indicated, would rise. There would be no job creation. The increase in inflation is almost entirely due to the GST, but higher oil prices are a factor as well. We are noting here parenthetically, although I am sure it is matter that is on the minds of the committee, as it is on all of our minds, that the Middle East situation makes the oil price component of the inflation forecast quite uncertain, as it makes almost all components of this forecast more uncertain than these things almost always are. But in that connection, the forecast looks for oil prices in 1991 to average about \$26 a barrel, up from about \$24.50 a barrel in 1990.

The 1992-94 period, the medium term, shows a return to more normal levels of growth but levels of growth that are somewhat below those experienced in the mid to late 1980s, when growth in Ontario averaged somewhat over 5% per year.

The primary reasons for this more modest growth over the next few years are what we believe will be a continuation of relatively tight monetary policy in Canada, the value of the Canadian dollar, which remains relatively high, a weak United States demand growth and ongoing structural adjustment in the Ontario economy to the free trade agreement and trade developments internationally in general.

Page 2 reviews some recent developments.

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**Mr Phillips:** On page 1, I think the 1990 job numbers are out now, if I am not mistaken. I think instead of minus 12,000, it is minus 120,000.

**Dr Christie:** This is a year-over-year average. The average level of employment in 1990 is about 12,000 below the average level of employment in 1989. If you look at end-of-year employment, say, versus the peak level, it will be closer to the figure you mentioned. These numbers here for inflation, job creation and the unemployment rate are annual averages.

**Mr Phillips:** But as an indicator, at least for me, at the year-end there were 120,000 fewer jobs, and I think there were about 165,000 fewer full-time jobs at year-end.

**Dr Christie:** We have some detailed labour market material coming up later, if we could take that under advisement perhaps and deal with it then, or would you prefer to go right to that material?

**Mr Phillips:** My point is just whether knowing that at year-end we were at minus 120,000 influences at all your average projections for 1991.

**Dr Christie:** It does in the sense that we are starting from quite a low base, and in order to realize the zero net on average in 1991 we need to have and do in fact have in



the forecast the resumption of job growth, along with the recovery from recession. That is part of the forecast.

**The Chair:** This is a very lengthy document. Could I ask that we have one question and perhaps if the question is answered later on, we could work that out so that we can move along quickly.

**Mr Kwinter:** Could I just ask one question about your assumption about the price of oil? The media today indicated that in fact the price of oil may be down around the \$18-a-barrel mark. How is that going to impact on your projections?

**Dr Christie:** Again, for Ontario, obviously a lower price of oil is better, as a rise in the price of oil for Ontario is like a tax increase levied by an outside party. It is a drain on disposable income in Ontario. For example, we have some material, again later on—and I hope I do not distract the committee too much by anticipating later things in responses to these questions—we have a slide that shows the impact of a \$10-a-barrel difference in the price of oil on the Ontario economy.

**Mr Jamison:** Actually my question involved the oil question, but seeing as it is a long report, I suggest that maybe we try to work our way through the report.

**Dr Christie:** Because a number of things have happened since this forecast was done and because the situation is sufficiently fluid, we felt that we should highlight a few of those recent developments to give you a sense of the way in which we see the risks to this forecast. As I think I mentioned before, it is fair to say at this point that the risks generally tend to be on the downside, that is, that the unfolding situation will not be as positive as even the very marginal kinds of growth numbers we displayed in the forecast.

As noted, the United States has followed Canada into recession and in fact industrial production in the United States over the past few months has fallen quite sharply, with the obvious impact on US exports. The unemployment rate for December in Ontario rose to 7.8%, which would require that on average the unemployment rate fall in 1991 in order to realize the 7.3% in the forecast that was presented. In fact, the last two months of data which became available showed a more marked deterioration in the employment outlook and unemployment rate than had been anticipated at the time of making this forecast.

Housing activity, again, has been very weak. The dollar has remained very high in spite of lower interest rates, and the federal government has indicated that it continues to see the battle against inflation as a higher priority than any moves to deal with the recession, the risk on that side of course being a more restrictive fiscal stance and monetary stance on the part of the government of Canada than we might have anticipated a couple of months ago.

Generally, the continuing uncertainty about events in the Middle East and the impacts of those events on consumer confidence may well slow the recovery. These are all factors that we are looking at as we continue to review the outlook in preparation for the budget forecast, which is released with the budget.

Page 3 gives you some indication of the way in which other forecasters are looking at the Ontario economy. It gives you some sense for the way in which forecasts have been moving in the past few months. As you can see in the October-November period, among those who had current forecasts at that point, the range was essentially between minus 1% and 1% and is in and around zero as a sort of central tendency. At the moment, there are very few people calling for positive growth in Ontario. They range from minus 0.3%, or essentially no growth, to a low of minus 3% from the Bank of Nova Scotia.

I think the wide forecast range that we are seeing here reflects in part the level of uncertainty in the environment, the level of uncertainty among forecasters, and the variety of assumptions that people are making about how things will unfold in the Middle East and what will happen to the price of oil, among other things. On average, forecasts for both the United States and Canada are moving lower. We have noted here that the average forecast for Canada in terms of the most recent forecast available is for the economy to continue to shrink by about 0.5%, with the US now seen as being very much the same level.

Finally, we have provided a summary of the antirecession measures that the Treasurer announced in his statement on 4 December, with the \$700 million from the province leading to about \$1 billion in short-term capital projects to stimulate employment. The decision not to impose the retail sales tax on the GST has had the effect of saving consumers about \$500 million per year, which will improve ability to consume. The extension of the Ontario current cost adjustment to the end of 1991 provides some incentive to investment. The confirmation of the more generous Ontario tax reduction provides \$44 million to low-income earners.

Taken together, we expect these measures to boost real output in the Ontario economy by about 0.6% in 1991 and create more than 20,000 jobs; that is, without these measures, our forecast as tabled in early December would have been for a small reduction in the size of the economy next year.

I will ask Qaid Silk now to give some more of the background.

**Mrs Sullivan:** I just have a clarification. Just so that we know where we are coming from, the Ontario current cost adjustment is the 30%?

**Dr Christie:** Yes.

**Mrs Sullivan:** This was the target last year. The Ontario tax reduction was also in the budget last year. The \$1 billion in short-term capital projects, is that new money or is that already in the 1990 budget?

**Dr Christie:** No, that was not in the 1990 budget.

**Mrs Sullivan:** So this is all new.

**Dr Christie:** Yes.

**Mr Silk:** So is the RST. There is no RST on GST.

**Mrs Sullivan:** That was not in the 1990 budget.

**Mr Silk:** No. Basically what I will do is take you through the next few slides, which will give a bit more detail on the element we presented in the summary.



The first slide obviously gives you the international economic environment. As you can see, we are expecting slow growth everywhere in the rest of the world, especially the US, our major trading partner, which is already in a recession. It entered a recession in the fourth quarter of 1990 and it is expected to be in a recession at least for two quarters. Some people think it might be a three-quarter recession. In any case, it is very slow growth, 0.4% average in 1991.

For the OECD as a whole—in other words, all the industrialized world—we are basically talking about just under 2%, with Japan and Germany leading. But both of those countries slowed down as well. Partly there are some uncertainties there too with respect to German reunification, and of course Japanese financial markets being quite high-levered and of course having experienced a significant downturn in late 1990. There are some uncertainties, but that basically does not change the story of slower growth in the rest of the world.

Slide 6 basically gives you a visual on the outlook that Bob presented for Ontario and of course for Canada. We are expecting the economy to begin a modest recovery by the middle of the year. The recession is hitting central Canada the worst in the country, mainly because manufacturing is in a recession and has been in a recession since the spring of 1989. We will talk about that a bit later in this presentation. Of course, we have had this much sharper correction both in sales and in prices in the Toronto housing market. That is basically because there is a drag in central Canada much lower than in the rest of the country.

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Slide 7 just gives you some sort of comparison of this recession versus the previous one, 1981-82, and the recovery period that will ensue from this recession compared to the one that occurred after the 1981-82 recession. The story really is that we essentially expect this recession to be much milder than the one in 1981-82, with the risks that Bob mentioned earlier. There is a lot of uncertainty, both with respect to oil prices and the duration of this war, and that could basically mean a longer recession and a delayed recovery. Notwithstanding those caveats, at this point we are seeing a milder recession, but by the same token a much more modest recovery: 2.9% average annual growth in the 1992-94 period compared to over 5% over the 1983-89 period. That is basically because, as Bob mentioned, we have higher interest rates through the forecast period, a higher dollar and, of course, adjustments related to the free trade agreement and the GST.

The next slide takes you to housing starts, 1989-91, and you can see that there is a significant decline in 1990 that we have just experienced in actual housing starts. It says "estimate," but we just got the actual this morning for December and therefore for the year. The actual was 62.6 or 62,600 starts for 1990, a sharp drop from the 1989 number, and we are saying that 1991, this year, will also see a further drop. Basically, we have the same things: the high interest rates, the very large inventory, especially of condominiums, price declines and the reversal of inter-provincial migration that helped in the late 1980s to boost housing. In addition, GST will obviously discourage new

home construction as well as resale activity, so we are seeing 54,000 starts in 1991.

Slide 9 gives you the forecast for real business investment both in machinery and equipment and in plant construction. In both elements we are seeing declines both in 1990 and 1991. Why? We have enumerated reasons there. We have obviously got a significantly lower corporate profit. We have a very weak economy and demand growing very weakly. We have a lot of excess capacity and nobody is going to be that tempted to put in extra capacity. We have the continuation of high interest rates, which means that it is very discouraging to put in new plants and equipment. In addition, we have very high commercial vacancy rates, and that is going to affect negatively or adversely commercial construction.

The next slide looks at the export-import sector of the Ontario economy. The dark chart is the exports, the light one is the imports. In 1990, at least in the first half of the year, we had a substantial trade surplus going, and that was because we had a lot of machinery equipment exports to the United States related to a business investment boom that was going on there. We had auto exports going quite strongly. That was in the first half of the year. It slowed significantly in the second half.

Of course, this year we are seeing a sharp reduction in exports growth, basically the 0.6, very little growth. That is because the US is in a recession. Obviously, with a more severe downturn in the US, we could have a decline in exports. Imports fell last year 1.6%. We are seeing no change in imports in 1991, basically because our economy will be very weak. Consumer spending will be weak, business investment north of the border will be very weak and that just will not pull in a lot of imports.

The next slide looks at the Ontario and Canadian inflation rates, and you can see from the chart—the light bar is Ontario, the dark is Canadian—in both 1989 and 1990 the Ontario rate was higher than the Canadian, in 1990 just marginal, but in 1991 we expect the Ontario rate to be lower than the national rate. On the other hand, both of them are going to be higher than 1990, 6% plus, and that is primarily because of the GST. Without the GST, we think actually inflation would have fallen slightly in 1991.

In addition, of course, we have got the oil price uncertainty. On the one hand, if we get a very short war—and this was the question referred to earlier—we could of course get lower oil prices and that would dampen inflation. On the other hand, a six-month or longer war as opposed to a six-week war would actually most probably lead to high oil prices and boost inflation. At this point we are sort of in a base case kind of way, if you like, if we have a short war in terms of what is built in here, but none the less there is some uncertainty about that.

The reason we will have lower inflation than nationally is because we have a much weaker economy and, of course, because the government has decided not to put RST on GST, which reduces provincial inflation by about one tenth to two tenths of a percentage point, so that helps keep the relative differential in Ontario's favour.

On the unemployment side, the next slide, we have got the unemployment rate already risen in 1990, as you had



referred to earlier, a 6.3% average for 1990, and we have got it going up another percentage point in 1991 with total employment remaining static, not changing at all on an average for the year. That, as Bob pointed out, would mean that there will be some resumption. Just as the economy recovers by midyear, there will be some resumption of employment growth by midyear as well, so that for the year as a whole it will mean no change in employment.

You have got unemployment rate averaging 7.3% and, as Bob pointed out, we have ended last year with 7.8%. That is the number that came out after we had finished this forecast here, so in a sense we think that that is going to be reasonably on track. None the less, if we have got a much weaker economy, a lot more loss of confidence, that is going to push the recovery and therefore keep that unemployment rate quite high through this year.

The last slide I have before handing it over is the oil price slide that we have got. What this does is give you some idea of what will happen if oil prices remain high, in this case a \$10 increase in the price of oil. You can see its extremely adverse impact on the Ontario economy. We are an oil importer, and it is like a tax being imposed on us by foreign countries essentially. It is adding \$2 billion to our oil bill. It really undermines personal income and therefore consumption.

Obviously it has a very negative impact on consumer confidence and business investment in Ontario; not energy investment but business investment in Ontario. To some extent it raises the interest rates worldwide and that affects our trading partners and subsequently us as well in a second-round effect, if you like. Partly the Canadian dollar is seen as a bit of a petrocurrency, because we have provinces that are affected very beneficially by high oil prices. As you have observed in the last little while, the Canadian dollar does benefit when the expectations of oil prices rise, but unfortunately that for Ontario is not very good initially and again undermines growth.

1400

Basically, we are saying that if oil prices rose \$10 as a result of a long, protracted war, that would be another sort of double whammy, if you like, for the Ontario economy. On the other hand, the reverse is true in some sense. It is not entirely symmetrical, but to some extent oil prices fell recently and they are now just under \$20. I do not know if they would fall to \$10 a barrel, but if they at least fell to \$18 or \$15, that would be beneficial, but not entirely symmetrically because it does take a bit of time. Confidence gets eroded much more rapidly than confidence gets built up. So it would have a beneficial impact, but would not be, as I said, symmetrical.

If there are no questions at this point, I will hand over to my colleague David Trick and he will talk about the labour markets.

**Mr Trick:** What I would like to do in the next few pages is look specifically at the employment situation over the last couple of years. What the graphs on these several pages normally do is show the situation since 1989 and then, for comparison and as a historical benchmark, show the situation during the 1981-83 recession. In general, as

Qaid noted, we are expecting that this particular recession will be somewhat less severe than the last one. At the same time, you will see on every graph that the numbers are certainly not great cause for optimism.

Having said that, then you start on page 14. Page 14 shows the overall employment situation in the province. Just as an explanation of how this graph is set up, the employment for August 1989 is set equal to 100 and is shown in the dotted line on this graph, and then the employment for August 1981 is also set equal to 100 and is shown as the solid black line.

One thing I should point out about most of these graphs is that the employment data are not seasonally adjusted so you will see the pattern of summer and winter there. In general, you lose about 200,000 jobs between summer and winter in Ontario just because of things like tourism, agriculture and construction, which are all highly seasonal industries. With that in mind, clearly the pattern on this graph is first of all that employment during the present recession is lower than it was at its peak, which was August 1989.

Second, it is not quite as severe a situation as we had in the previous recession. As Qaid was saying, we are expecting employment as a whole to be fairly static between this year and last year, so the prognosis will be that the line for 1991 will neither be much higher nor much lower than what you see here for 1990.

**Mrs Sullivan:** I would like to look at the graph in a little bit more depth. On the bottom, what are the years? I gather that what you have done is go to a base of 100 to compare these graphs, one of which is a 1989 base year of 100 and one a 1981 base year of 100.

**Mr Trick:** That is correct. If you see along the left-hand axis there, August 1981 equals 100 for the solid black line and August 1989 equals 100 for the dotted line. Along the bottom for the dotted lines, the years are August 1989 going through to 1990. There is no line shown for 1991 yet. For the solid black line, it starts in August 1981 and goes through April 1984. The point is simply to try to compare the progress of this recession compared to the last recession.

**Mr B. Ward:** The graph lumps all the jobs, does it not?

**Mr Trick:** That is correct.

**Mr B. Ward:** Is it possible that we could differentiate between manufacturing jobs and service sector jobs? Is that a possibility?

**Mr Trick:** Yes. A few pages along, there is a breakdown just like that.

**Mr B. Ward:** We should not be asking any questions, because you have everything covered.

**Mr Trick:** That is quite all right. I am always glad if there is a question we might have answered.

Just turning to page 15, we show a similar set of data with respect to the unemployment rate. As Qaid said, the prognosis for the coming year is that the unemployment rate will be roughly 7.3%, so it does not go terribly much higher than where you see the end of the line now for



1989-90. By comparison, in the last recession we did get up to about 12% at one point. Again, there is some indication that the severity is not quite as great, although clearly the situation is not optimal.

Just as a matter of background, we are going to go through several slides that show the impact of a recession on men over the age of 25, women over the age of 25 and youth aged 15 to 24. One of the things you have to keep in mind is the change in the demographic structure of the province over the past 10 years. During the last recession, much of the baby boom was still entering the labour force and consequently we had quite a substantial rise in the youth unemployment rate in the last recession.

**The Chair:** The chart on page 15 indicates that the unemployment rate seasonally adjusted at 7% was reached in October. You are making the assumption that the recessions are starting, are you not, in the same time frame, in the same quarter, or at the same rate?

**Mr Trick:** Why do we pick those two as the base?

**The Chair:** Let me just finish my question. The question is that given that you have started with 1981-83 recession at 6.5%—you have that line—and we have just passed that now, how do we know that this is parallel or co-ordinating? How do we know that we are not at the beginning of the upsurge where the graph starts to peak?

**Mr Trick:** There are two or three different questions there. Let me start with the question of why was it higher in early 1981 as compared to early 1989. Essentially that was the demographic fact that you had so many young people in the labour market at that time. We went through a long period of roughly a decade when unemployment rates were substantially higher than what they had been previously or what we experienced, say, during the late stages of the expansion in 1987, 1988, 1989.

For this whole decade from roughly 1975 to 1985, unemployment rates tended to be higher than historical average because there were so many young people trying to enter the labour market at the same time. Essentially your question is how do we know that 1991 will not be worse than 1990 and then 1992 worse than 1991. The forecast which Qaid presented is not based on just this kind of graph. The forecast is based on looking at the actual situation in the economy as of the last few months and the expectation for it.

The purpose of this graph is not to show that this is how we do a forecast, but just to show the severity of the two situations.

On page 16, to reiterate the point I guess I just made, the number of young people in the labour market has tapered off somewhat since the early 1980s. Meanwhile, there has been a substantial rise in both men and women over the age of 25 in the labour market. Partly that is because baby-boomers are now between the ages of roughly 25 and 45 and partly it is because of the higher participation rates of women in the job market.

1410

**Mr Phillips:** What do you expect the labour force to grow by next year? How many people roughly?

**Mr Silk:** I have it at 1.3%. I can tell you in a minute how many people that is.

**Mr Phillips:** Maybe 60,000 or something like that?

**Mr Silk:** Some 66,000.

**Mr Phillips:** So that is the number of jobs you create?

**Mr Silk:** That is right.

**Mr Phillips:** To keep the unemployment rate the same.

**Dr Christie:** To keep the number of unemployed the same, which would be pretty close.

**Mr Trick:** On page 17 we show a breakdown between the experiences of men and women during both recessions. If we start with the chart at the top for males, we see that the number of males employed at this point is about 93% of the number employed in August 1989. This shows somewhat less severity than in the previous recession. At the worst point of the previous recession we had 85% as many males employed at the bottom as we did at the top. If we look at the graph for females we see a somewhat different experience. For a number of reasons which we will go into in a minute, females have been so far not as severely affected as males in terms of job loss. Right now roughly 99% as many women are employed today as were employed at the peak employment level of August 1989. That was true of the earlier recession as well.

On page 18, we show the seasonally adjusted unemployment rate by age and by sex. The first group that is typically affected by a rise in unemployment is youth under the age of 25. Typically they have the least seniority, they are often in the least stable jobs, part-time jobs and so on. In both recessions they were the first group to have their unemployment rate rise. The rise, at least so far in this recession, has been nowhere near as great as in the preceding one because of the demographic reason I mentioned.

For men and women over the age of 25, it is only in the last two or three months that their unemployment rate has started to rise in any substantial way. Prior to that it was relatively flat, as you can see on the graph.

On page 19, we show unemployment rates for men and women respectively. Typically, during periods of expansion the male unemployment rate is somewhat lower than the female rate. During periods of recession you tend to see the reverse. Certainly in the last recession the male unemployment rate was higher. In recent months it has crossed over again; the male rate is now higher than the female rate after having been lower for much of the period of expansion.

On page 20 we see some of the same trends, except shown for employment rather than unemployment. For both men and women over the age of 25, it is only in the past few months that you see much of a dropoff at all. So far, as I say, most of the effect of job loss has been on young men and women under the age of 25.

**Mr Phillips:** Although that is the average job. I think in the last 12 months 116,000 males have lost their full-time jobs.



**Mr Trick:** I would have to look up the number. That would not surprise me. That would probably include all age groups.

**Mr Phillips:** Yes. Let's just say if you took the end of December as opposed to your average.

**Mr Trick:** On page 21 we show the breakdown for young men and young women. Both of them have dropped off fairly substantially over the last year and a half. The dropoff for young males has been somewhat more substantial than for females, but it is clear they are both on a negative path.

On page 22, to return to the question I was asked earlier, we see a breakdown by service sector versus goods sector. You see quite a substantial difference in the two patterns. In both recessions it is typically the goods sector where you see the most job loss. The service sector actually has grown slightly in both recessions. Because 84% of women work in the service sector, they are somewhat less affected by recessions than are males; then, during a recovery the opposite happens in that males typically pick up most of the jobs during a recovery and expansion.

**Mr Phillips:** You include full- and part-time jobs in your numbers, do you not?

**Dr Christie:** That is right. Just before we leave that page, I should mention that there is an appendix to this presentation which goes into far greater detail than you perhaps care to hear on the demographic and age and sex breakdown of the employment experience of this recession. We are not going to go through those graphs one by one, but I will just point out to you that they exist.

**Mr Phillips:** What percentage of the gross domestic product do the two sectors produce, the service and the goods?

**Mr Silk:** The service sector is about 70%, and the goods, including manufacturing, is about 30%.

**Dr Christie:** I think John Hoicka has these numbers in detail. Manufacturing tends to be 24% to 25%; agriculture and the primary sector have the rest. We can get the exact numbers for you.

**Mr Fletcher:** As far as the service sector jobs are concerned, you do not differentiate between the public service and the private service sectors?

**Mr Trick:** No, these are both included in those data.

**Mr Fletcher:** You cannot tell me, then, if over the last four or five years or in the last recession whether government has been spending more money by hiring more people through job creation employment programs or whether it has been the private sector that has been carrying it?

**Mr Trick:** I do not have those numbers with me. We can certainly try to find them for you.

**Mr Fletcher:** I would not mind finding out.

**Mr Jamison:** What you are saying, for my own clarification, is that the service sector has grown significantly between the last recession and this recession and the goods sector has correspondingly shrunk?

**Mr Trick:** The number of people employed in the goods sector has been roughly constant for the last 10 years if you leave out cyclical variations. There has been no particular expansion in employment in goods production. Most of the net expansion in employment over that period has been the services.

**Mr Phillips:** The numbers I have seen on manufacturing are that we have 10% fewer jobs today than we had 12 months ago in manufacturing. Is that right?

**Mr Trick:** Yes.

**Mr Hansen:** With the loss of manufacturing jobs, there might be an increase of service jobs but looking on into 1991 it could possibly catch up that these manufacturing jobs we have lost, where people are not working, could affect the service industry also. Is that a good indication here, reduction in services?

**Mr Trick:** There are a couple of different factors. One is that as you lose manufacturing jobs you do lose some of the momentum of the economy. We have taken that into account in producing the forecast for the coming year. As mentioned earlier, the forecast for the economy as a whole is roughly stable in employment, so that is factored into our overall forecast.

**Mr Hansen:** One thing I see is that when we are talking about layoffs in 1989 and 1990 we are talking about loss of jobs going to the United States, which is quite a bit different. So when we talk about this turnaround in the economy, we are going to wind up not having these jobs rejuvenated. They are not layoffs; they are actually plant shutdowns. So I think there is going to be quite a bit of difference between the 1981 and the 1991 comeback.

**Mr Trick:** That is certainly consistent with our own forecast. We think the recovery will be somewhat slower than it was in 1983-84. You are making exactly the point I would make about this graph on page 23, that even though the overall number of layoffs does not yet match what we saw in 1982, the number of complete closures is quite substantially higher than in 1982, and those are workers who are not going to be recalled. So you are right.

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**Mr Fletcher:** On page 23, could we have in some way a correlation between the job loss in Ontario compared to the job increase in some areas of the US? I would like to see if there is a correlation. Is that possible?

**Mr Trick:** We could certainly find those numbers for you. I do not have them with me. If there are no further questions, John Hoicka, who is senior policy adviser in sectoral and regional policy branch, will cover the next section.

**Mr B. Ward:** I would like to turn back to page 23. The complete closures and cutbacks: when you gather your statistics, do you have a cutoff of number of employees who would be included in this stat? What would that number be? It is probably in the background, but I will ask anyway.

**Mr Trick:** Actually, it is not. Under Ontario legislation, the Ministry of Labour has to be informed if you

intend to lay off 50 or more workers, so these data cover only the 50-plus category, the definition of major layoffs.

**Mr Christopherson:** Just to take that question to the next step, how much difference would it make if the calculations that are not included were? Do you have any sense that it would change things at all?

**Mr Trick:** The residual would be the difference between the 31,000 reported as layoffs and a net job loss reported in the same period of roughly 120,000 jobs. So you would have quite a substantial number of workers working in smaller plants who are laid off, say, two by two, 10 by 10, who are not reported in these data.

**Mr Christopherson:** But you would not know whether those people were temporarily laid off or whether the jobs were eliminated?

**Mr Trick:** I do not think there is any obvious way of knowing that. I will have to think about that question, but I do not think there is any way of knowing.

**Mrs Sullivan:** I have before me a clipping from the Toronto Star, 16 January, talking about shutdowns claiming 20,554 jobs. This is from Ontario Ministry of Labour statistical data. Where would those figures fit into this chart?

**Mr Hoicka:** Maybe I could respond to that. The original data from the Ministry of Labour actually break that 31,007 into three parts, and this particular graph simply shows two of them. The full layoffs were 15,339. In addition, that cross-hatched area includes partial but permanent layoffs, and that figure is approximately 5,000 in 1990. It just happened that we took the two-part split rather than the three-part split, but it would not be difficult to provide the committee with their data. That reinforces the conclusion, if you think about partial closures. The 5,000 in 1990, I am fairly certain, is larger than the comparable figure in 1982.

**Mr Jamison:** You are talking complete closures in the figure of 15,000?

**Mr Hoicka:** That is correct.

**Mr Jamison:** The other figure you are including is permanent layoffs but the plants are not closing, it is new technology or whatever.

**Mr Hoicka:** That is correct. They might be closing down a line. There would be another 5,000, but they would be included in that cross-hatched area.

**Mr Phillips:** The essence of your presentation is that you are betting we are coming out of this in another six months, and that is why you have picked the dates and what not. If you put another view on it, just looking at the numbers, I see that it is about 165,000 or 170,000 full-time jobs lower at the end of December, offset by about a 47,000 increase in part-time, which kind of masks the numbers, in manufacturing. You think it is 24% of the gross domestic product; I thought more like 35% of the gross domestic product was manufacturing. Its number of jobs is down by, I guess, 110,000. I guess Treasury feels we should not feel as pessimistic about the end of December numbers because its belief is that by the middle of the calendar year we will be heading out of the recession.

**Dr Christie:** That is an apt summary of the forecast that was presented in early December. As I think we indicated at the beginning of our discussion, there have been a number of events that would lead us to be perhaps not as bullish, if essentially no growth can be described as bullish. There are a number of downsides to that forecast that I think we have described, which might go some distance to rationalizing the difference of views you appear to be referring to.

**Mr Phillips:** As the Chairman said, it depends on where you put your time, whether those graphs are below the 1982 numbers substantially or whether there is any feeling they may continue to rise.

**Dr Christie:** The graphs we have shown have attempted to match up, for example, the first year of recession or first quarter of recession. We know that the recession began in Ontario in the second quarter of 1990 and we have attempted to match that to the corresponding quarter of the 1981-82 recession. What we have tried to do is match beginning with beginning. As we indicated earlier, we are not trying to identify the end to the month, but we are trying to give the committee a sense of how—as it has unfolded so far compared to 1981-82 at the same relative point—it is faring to date.

**Mr Kwinter:** I just want to follow up on that same point. You have done your projections and you assume that by midyear we will be pulling out of the recession, but you have also qualified that depending on certain things happening. It is possible that the figures, not only on the major layoffs but all the figures, could be going up in 1991 so that 1990 is not the peak; it could be 1991 if things get worse.

**Dr Christie:** The peaks, for example, for the unemployment rate? That is certainly possible.

**Mr Silk:** Actually, in our projections, we have an average unemployment rate for 1990 of 6.3%, which we have just seen the past year. We are basically saying that is not the end; in 1991 we are going to have an average of one percentage point more, 7.3%. In fact, December ended at 7.8%. We are not saying that the worst on the unemployment rate is anywhere behind us.

**Mr Kwinter:** That is the point I was trying to make, that because of the way all of your projections are, you show 1982 as the peak of the negative stuff. When you look at this you see 1990, and it gives the impression that 1990 is the peak in this recession and that things will only get better, as they did in 1983, 1984 and 1985, but that is not necessarily so.

**Dr Christie:** If those graphs have been interpreted to suggest that, they were not intended to suggest that. They were only intended to suggest how things have progressed to date. We have not tried to give a month-by-month forecast of, for example, the unemployment rate or jobs in manufacturing. We are trying to show how the recession has developed compared to the 1981-82 experience, and it is certainly possible that those lines relating to this current recession could continue to deteriorate, in fact, given our forecast of a recovery not beginning until the middle of



1991, would be expected to continue to deteriorate through at least the first half of this year.

**Mr Silk:** Our forecast basically is saying, yes, at present we are not out of the woods, that in fact the recovery will not occur before midyear. So if you are asking us in January 1991, "Is there more bad news to come?" I suppose we would have to say, "Yes, our forecast does acknowledge that." For 1991 as a whole, the forecast we presented in December was that we will see, because of a resumption of growth by midyear and because of some antirecessionary measures taken by the government in December, some resumption and therefore the average for the year would be 0.5% growth. But that is an average for the year. We are not trying to hide the fact that for the next little while things will not turn around.

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I could at this point give some information on the 35% you were referring to earlier, Mr Phillips. The 35% you referred to is basically the goods-producing sector. You are quite right, it is 35%. However manufacturing itself is 24% of the economy; construction is 6%; utilities are 2.5%; mining, 1%; agriculture, forestry and fishing, just under 2%. That makes up the goods-producing sector. In the services, I was wrong; it is not 70%, it is 65%, if that answers your question.

**Mr Stockwell:** These are the same figures basically or the same forecast that the Treasurer was looking at in the announcement in December. He sounded a lot more confident than you do now with respect to your projections and when we will be out of this recession and so on. It seems that you are a little less confident this month than you were last and maybe the month before that, and I can understand that.

You are calling for a 0.5% increase in real growth for 1991. Considering the \$1 billion—the \$700 million plus the \$300 million—dumped into the economy, if you did not have that, in fact there would be negative growth. So in fact we would be in full force, right involved in a major recession. There would be negative growth in Ontario to the tune of something just marginally below, but definite negative growth.

The second question is, where are the revenue projections? Are they coming forward at a later date or what? I suppose as a committee we are going to ask you to comment or make recommendations on a budget process and we kind of get half an equation here. I have flipped through as best I can. I cannot find any revenue projections. Were they not here on purpose?

**Dr Christie:** With respect to the first point, you are absolutely right. That is in fact what the forecast would be were the antirecession activities not there. The forecast for next year would have been for a small negative number. With respect to the revenue figures, we do not have those. We were here to describe for you what we see to be the economic outlook and we will relay your interest in the revenue side to our colleagues.

**Mr Stockwell:** When we requested their attendance we specified that we did not want any revenue projections.

I assume that when you look at economic forecasts and growth and negative growth—

**The Chair:** Mr Stockwell, if you were to refer to table 1—I think you have a package—they have projections, current outlook for 1990-91.

**Mr Stockwell:** You are standing by those projections then.

**Dr Christie:** For the current fiscal year?

**Mr Stockwell:** No, no, the projections for 1991.

**Dr Christie:** For fiscal 1990-91, which is the current fiscal year.

**Mr Stockwell:** No, no, 1991-92, the next fiscal year.

**Dr Christie:** The projections referred to were revenue projections for fiscal year 1990-91.

**Mr Stockwell:** Right, ending in March.

**Dr Christie:** Ending March 1991. That is correct.

**Mr Stockwell:** So we do not have any projections for the next fiscal year.

**Dr Christie:** There have been no projections for fiscal 1991-92.

**Mr Stockwell:** Then correct me if I am wrong. Did you not say last year that our revenue projections generally run at 90% of gross domestic product?

**Dr Christie:** The rule of thumb that we use that has been described to this committee before is that the growth rate in base revenue tends to go at about 90% of the growth rate of GDP.

**Mr Stockwell:** With that rule of thumb, you are saying Treasury has not put any revenue projections together.

**Dr Christie:** We have not brought revenue projections today. We have come to, again, as I said, discuss the economic outlook. I am not aware that any specific revenue projections have been tabled before with the committee, although we have talked in general terms about the direction of the revenue.

**Mr Stockwell:** Sorry, Mr Chairman. I was under the understanding that we were receiving those as well. I thought revenue projections were part of it. It is really looking at one side of the equation if we are just going to look at this. How can we make serious recommendations when we have no revenue projections?

**The Chair:** I would suggest that those numbers be sent to us as soon as they have been compiled. Is there any projected time frame within which they would be compiled?

**Dr Christie:** We would have to get back to the committee on that, Mr Chairman.

**Mr Stockwell:** They have to be compiled by now.

**Mr Jamison:** I may be wrong, but I would imagine that the spring budget would have a bearing on what the income of the province would be. It might be pretty hard to project at this point since the budget is being worked on and this is part of the process leading up to it.

**Mr Phillips:** What are the latest estimates? This document is now three or four months old. What are revenues



and expenditures, for this year, just to get an idea of where we actually are going to end up at the end of the year?

**Dr Christie:** I think the next scheduled release of that update would be for 31 December and that normally comes towards the end of January, so that should become available in the next few weeks.

**Mr Phillips:** I gather we will write a pre-budget report. I forgot what you said about whether the committee will have any estimate, to help us on our pre-budget work, of what the revenues will be for the next fiscal year.

**Dr Christie:** The next fiscal year? We will have to get back to the committee on that, along with a number of other matters.

**Mr Phillips:** That is good. So by the end of this, when our committee finishes hearings, we will know at least as of the end of December what will be the revenue and expenditures for this fiscal year and some ballpark for next fiscal year, I guess.

**The Chair:** If they can send us some numbers by the end of the month, then at least we would have some projection of what the revenue was going to be.

**Mr Stockwell:** It is farcical to go through this process without revenue projections. What a colossal waste of time.

**The Chair:** I will consider those comments and give you comments back a little later.

**Mr Sterling:** You seem to compare a lot of the various economic indicators with the 1981-82 recession. I was wondering whether or not you had done any analysis on the debt situation with the Ontario government and the overall debt situation of the Ontario taxpayer in terms of the ability of the government or the advisability of the government to go to a larger deficit during a period of recession. Have you done any analysis in that way, for instance, of per capita debt of the average Ontario resident in 1981-82? How much space was there then for governments to basically spend their way out of a recession, as opposed to today?

**Dr Christie:** The basic debt figures that we have looked at are the ones that, for example, are published in the budget each year. On a per capita basis, certainly debt is higher now than it was in 1980 or 1981, but I believe I am correct—and we are looking for the exact figures—that, for example, the total provincial debt as a percentage of gross domestic product is significantly lower now than it was in 1981. In terms of how that relates to any particular deficit level or the economic stimulus that relates from any particular deficit level, no we have not looked at that, but we are certainly aware of the relative debt position between the two periods.

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**Mr B. Ward:** I have a point of order. Not to dampen the enthusiasm for the questioning, etc, they are all very valid questions, it seems to me we are getting a little bit off the topic of the report here. We were talking about major payoffs and then I believe moving into net farm income, etc. My suggestion would be that we try to plow through

this report. Then any valid questions outside of this report could be asked at the end of that discussion.

**The Chair:** You have moved in the direction of my thoughts, Mr Ward. Do you have one quick question to wrap this up?

**Mr Sterling:** What is the deficit right now?

**Dr Christie:** The deficit noted in the last Ontario Finances was just somewhat shy of \$2.5 billion.

**Mr Sterling:** I said now, though; today.

**Dr Christie:** The last official statement is that—

**Mr Sterling:** I did not ask you for the official statement. I asked you what it is.

**Dr Christie:** That is the most recent figure I have available, sir.

**Mr Sterling:** So you will not tell me?

**Dr Christie:** That is the most recent figure I have available, sir.

**Mr Christopherson:** On a point similar to Mr Ward's, unless I misunderstand, the questions being asked are talking about the Ontario budget, while the briefing we are receiving is on the Ontario economy, which are two different things.

**The Chair:** Maybe we should proceed with the presentation. John, I think you are up next.

**Mr Hoicka:** Okay. This is the sectoral situation and outlook. What I have done here is simply pick a number of key industries to briefly describe current history and at least a qualitative outlook for 1991 and the next couple of years.

Page 24 is a chart which indicates net farm income in Ontario. The dotted line indicates net farm income without government payments. As the decline makes clear, those figures reached a peak in 1986 and, for practical purposes, have been declining since that time period. They went up slightly in 1990, but at this point they are expected to decline somewhat in 1991.

The bold line gives the total farm income, and then the difference between the two lines indicates the net government payouts. In Ontario in 1990, those net government payouts were about 44% of net farm income, up from 23% in 1978 and 35% in 1982. By comparison, for the country as a whole, payouts were 65%, so Ontario farmers received a smaller percentage payout than farmers across the country. In large part that reflects large payouts for grains, so you will see quite substantial federal payments in Saskatchewan, for example. Those figures are much higher than 65% in Saskatchewan.

**Mrs Sullivan:** On the government payouts, I assume these include both subsidies and support payments as they have been discussed through GATT. Do they include things like tax expenditures such as the interest rate reduction programs? Would that be included in the government payouts?

**Mr Hoicka:** I think they would include that if it is directly received by farmers. I am not certain, for example, about the Ontario family farm interest rate reduction program payments. For example, the farm tax reduction



program would be in there—it is a direct payment—tripartite stabilization payouts and those types of payments.

**Mrs Sullivan:** Crop insurance?

**Mr Hoicka:** Crop insurance would be in there.

Going from the net farm income, on page 25, the gross cash receipts of course are much larger. This is a basic outlook. The largest sector is the red meat sector, with approximately 30% of total farm cash receipts. We see that slightly improved in 1991 compared to 1990, with cattle production stabilizing and some modest increase in hog production.

The second large group is the supply management sector. We see a mixed set of results there. Dairy quotas are falling at the moment due to excess butterfat production. Chicken production is increasing slightly. That is to some extent being limited by higher imports under the free trade agreement. Demand for table eggs is declining. We think grain and oil seed prices have probably bottomed out, or close to bottomed out, for now and that there will probably be, depending on the weather obviously, a small degree of quantity increase.

The larger group is the pulp and paper group. That certainly has been deteriorating over at least the past year. Prices have dropped, particularly newsprint prices. Profits have dropped very substantially. We are seeing mills taking more time for downtime, inventory control and so forth. That looks like it will continue through 1991 and may take until some time in 1992 to see significant changes in turnaround in that industry.

Lumber and other wood products are of course heavily concentrated in northern Ontario. They are suffering from a whole range of difficulties: the drop in residential construction, low prices nationally and internationally, the export tax and of course a strong dollar, which inhibits exports.

To date, at least through October, sawmill production was down only 5% on a year-over-year basis in Ontario, but there have been significant increases in layoffs since then, so we anticipate that production data will likewise show worse results as we get into the new year. We expect to see some improvement by 1992 as housing starts increase, but there remain medium-term and perhaps long-term difficulties, because we do not see the same kind of increase in housing starts as we have had in the past.

The mining industry: Currently nickel, gold, copper, zinc and uranium are the most important minerals. If you compare it to the situation 10 years ago, gold of course has increased rapidly in importance while uranium and iron ore declined significantly. Through the decade, mining employment dropped by 6,000, principally in nickel, copper, iron ore and uranium. For 1991, we see essentially stable output. Nickel prices remain above break-even cost, so we see no decline, perhaps a small increase, in nickel output. We have had some very substantial increases in gold production over past years, perhaps minor increases in 1991, but we are coming to the end of the major increases. Iron ore and uranium output of course will be down due to closures.

**The Chair:** I have a question. Mining employment fell by 6,166 from 1979 to 1989. Do you have any indication in what years that decline was the most rapid?

**Mr Hoicka:** That would have been about 1981-82. In Sudbury, both Inco and Falconbridge very substantially reduced employment about that time. I do not have the figures in front of me. There would have been a modest decrease as well on net in 1990 because the iron ore mines closed down, uranium had some substantial layoffs and there was some reduction in mining exploration, so there would have been a much smaller decrease relative to 1981-82. Those would have been the key time periods for employment drops.

**The Chair:** Is there any statistical correlation between the rise in value of the Canadian dollar and the decline in the export market? Would that impact on the rising unemployment?

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**Mr Hoicka:** It might be difficult to find a statistical correlation, I think. At the time the nickel layoffs took place, 1981-82, the Canadian dollar was relatively low, but mining prices were very low at that time period, so the problem is that the dollar plays a role but obviously the price of the product plays a much larger role. So I do not think, if we just correlate it against the dollar, it would be that obvious. One thing that is quite clear is that if the dollar goes up it creates pressures on the industry because its prices are in US terms, and profits, for example, will get squeezed with a high dollar, but then you would have to go back to the price equation.

**Mr B. Ward:** In discussion with the industry, recognizing we are predicting or calculating that the current recession will end and then slowly climb out of it, is there a feeling in the industry that where the decline in unemployment levels will trough out that we can anticipate—well, it is as steep as it was in 1982-83. Do you have any feeling on where it will stop? Have we reached as low as we are going to go or is it unpredictable?

**Mr Hoicka:** I think the mining industry is always a little bit unpredictable, so I do not think anybody could give the Canadian people a strong answer to that. I think the key employers, first of all nickel—as a matter of fact, over the past year or so Inco has actually hired small numbers of people so they seem to have gotten to a relatively stable situation. I am not sure that their net employment went up, but the idea that they actually put out a job-wanted ad was pretty unusual.

Gold production has been increasing in large part because we have been opening up a number of new mines in Ontario. There have been well over a dozen new mines, and I think the issue there is simply the fact that they are probably not going to continue to open mines. The price of gold is still high enough that almost all the mines in Ontario are profitable at the current price. With the nickel, I think, the same situation; prices are a lot lower than they have been, but they are fairly reasonable. I think in the other sectors to some extent that is the same situation.

Of course there are mines that exist which at some time or another will come to the end of their useful life, and that



is a very difficult thing to predict; but at the moment I think the industry would be concentrating on a much smaller issue than overall employment, and that is the situation with exploration. There has been a significant decline in exploration, among other things because with prices no longer as attractive as they were and the cost of capital remaining quite high, it is difficult to sink a lot of investment into that end. But that employment may or may not have dropped to the bottom. It is not large compared to the total, but it represents a perception about the future.

On page 28 is a graph which describes what has happened to manufacturing employment in the past decade, and I think the first key point is that the previous peak in 1981, we never quite regained that peak. There are two further peaks in the graph towards the right end of the graph which are actually slightly lower than the peak in 1981. During that time period between the one peak and the next peak we had an increase of about 30% in output, so that was a very substantial increase in productivity.

Now what we have seen, though, in the past just over a year, is a very substantial decline in manufacturing employment. The peak to trough in the current situation is about 1,076,000 employees down to 907,000 as of December data. That compares to 1,079,000 in the previous recession going down to 873,000, so it has not been quite as steep yet but it is quite possible that we will equal or exceed the decline in employment.

As part of that decline, as noted earlier, there has been a higher proportion of permanent layoffs. So I think it is quite clear that the manufacturing sector has seen significant pressures to date and there may yet be some pressures.

**Mrs Sullivan:** I would like to follow through, say, in comparing the periods from the peaks and the productivity gains that were made over the period of five years between 1982 and 1987 and then the year 1989. When we are looking at the valleys and looking at I believe the third quarter of 1990 and the third quarter of 1982, what do you see, the comparative outputs during those periods, those periods of decline?

**Mr Hoicka:** I would have to check the details, but it would be at least between the trough we had then and the current low point. Taking into account that there is probably a difference in months, it would still be at least a 30% increase and probably more than a 30% increase in real output.

**Mrs Sullivan:** So in that case, then, some of these employment declines in the manufacturing sector are probably technology-based as much as simply plants closed down due to competition or the effects of free trade or whatever.

**Mr Hoicka:** I think it would be easier to see the time period of the recovery, say, from 1984 to 1989 as demonstrating the effects of productivity. I think the speed with which jobs have dropped between the beginning of 1989 and now, you would be hard put to show that that in itself related to that rapid technological change. There is no question but that during the decade there has been quite substantial technological change and there has been sub-

stantial increase in productivity. There are a number of other supporting data, like better control over inventories and a whole series of ancillary data that suggest that technology has played a substantial role in the manufacturing industry in the 1980s, but I would not show this particular decline as—

**Mrs Sullivan:** It would simply be one factor. Do you have figures of what portion changes in the way of doing things, whether it is the introduction of technology or whether it is just-in-time delivery or whatever, would contribute to declining employment in this sector?

**Mr Hoicka:** The studies we have done suggest that technological change in the past period of time would give about 2% real growth per year in manufacturing, seems to have been giving that kind of a boost. I think the real problem since 1989 is that we have gotten and continue to get the productivity boost, but if you do not have increased sales then you have a tough decision to make. So I would point to the fact that shipments have not been increasing and in fact now have declined in the latter part of 1990 forcing a resolution of that problem.

**Mr Phillips:** What qualitative conclusions should we draw from Treasury as we see those kinds of declines? On the surface, I look at it and say 10% of the manufacturing jobs are gone and that looks like it is a significant concern. But, for example, what percentage of our exports does manufacturing represent, and is this going to mean some decline in our export business? What should we take out of that decline?

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**Mr Hoicka:** I think this is much more a job issue than it is an export issue or even perhaps a production issue once the recession is over. I think that manufacturers have been quicker to cut back operations now that they see as unprofitable or low productivity but they have not necessarily cut back substantially in their ability to recover. That obviously would depend on the individual firm.

I think what this chart suggests is that if the previous recession repeated itself, we would have within a couple of years a rebound in employment. I think the question we have is whether with more permanent layoffs that rebound employment will be as strong as it was after the previous recession. However, I do think there is substantial opportunity to have a rebound in the output side.

**Mr Phillips:** What per cent of our exports would be manufacturing?

**Mr Hoicka:** About 85% or 90%, probably. It would be a very large percentage.

**Dr Christie:** We will get precise numbers on that, but that is about the range.

**Mr Phillips:** In theory, the cliché is, you had better be able to trade globally if you want to survive, and if manufacturing is 80% of our exports, in theory that is what we are trading, although that strikes me as high because of the resource sector.

**Mr Hoicka:** Oh, yes, sorry, I misspoke myself. I was thinking of the goods sector. I have to rethink it. It might be more like 65% or 70% in Ontario.



**Mr Fletcher:** When I am looking at the graph I see the Canadian one is like someone's heartbeat that is rather erratic. Yet the United States one, other than the big dip, is rather constant and it does not seem to have the same fluctuations. Is that due to the fact that they are always changing and we wait to change? That could be just a Canadian trait as far as technology is concerned.

**Mr Hoicka:** I think this graph does illustrate that after the recession, the US employment in manufacturing did not rebound to anywhere near the same extent as it did in Ontario. We made gains in particular industries, for example autos, at a time when there were substantial cutbacks in the US. Our steel industry did not have the kinds of cutbacks that occurred in the US and so forth, so yes, in essence what has happened is that as of now, we are down to about where the US got to by not having the kind of employment recovery that we had. Incidentally, they did have a somewhat better productivity experience during that time period, so their output went up on a per-person basis more than our output did.

**Mr Fletcher:** We are looking at full implementation of the free trade agreement plus perhaps an involvement in the Mexican trade agreement. Can you still talk about a recovery from this recession back to anywhere near what we have been accustomed to, or is it going to more or less flatten out?

**Mr Hoicka:** First, I will start with the last point, which is the Mexican agreement. The Mexican agreement I do not think would come into play within the time period of the forecast we are dealing with. It might or might not have an impact, but not within the next couple of years, simply because it is not here yet.

The issue of the free trade agreement is fairly complex to deal with. I would think that the biggest impact has been on industry and the reasons for the drops in the first place have been the recession, simply the fact that sales have not grown and in fact are declining. That relates to a series of things, including the high dollar and quite high interest rates in real terms.

I think the way you would have to think of the free trade agreement is that the restructuring that might have taken place over a 10-year period has been forced back in the minds of many managers as they face the necessity to lay off. They are making decisions, should this be a temporary layoff or should this be a permanent layoff, a decision that you might not have faced for a number of years into the future. So I think it plays a role but it is a qualitative role; it is not a role that you could separate from the very important fact that there is a recession at the time we have an 87-cent dollar.

**Mr Jamison:** It was mentioned earlier on that the United States was slower going into the recessionary cycle too, but this graph would also indicate that to me. Is that a correct assessment?

**Mr Hoicka:** It would be quite possible for US employment numbers to start dropping, yes, because certainly in manufacturing we hit a recession from the manufacturing point of view, in the sense of no increase in sales, much earlier than the United States did. It would be

quite possible to see layoffs there if we came back in six months, for example, so it may well be that they are worse.

**Mr Sutherland:** What you are saying, then, is that US manufacturing is suffering from the same problem of sales. It would seem to me that a lot of the manufacturing jobs that we are losing are going to the United States, or that seems to be from what we read about. I am just wondering, these plants are going down there and setting up, but if there are no sales there, is it going to be the same slowdown or a worse slowdown than we have, or are you able to tell at this time?

**Mr Hoicka:** I cannot describe whether the slowdown is the same or worse. I might have to go back to Qaid Silk, because that is an overall question about the economy.

**Mr Silk:** At present we have, in our forecast anyway, the US slowdown for 1991 slightly sharper than the slowdown for Canada and for Ontario. But the point that Mr Jamison was making earlier is that the US, remember, entered the recession much later. We entered our recession in the second quarter of 1990 and the United States entered its recession two quarters later in the fourth quarter of 1990 so that effectively, you know, maybe it will have a shorter recession than ours, but in any case, in 1991 it will be experiencing slower growth than we will.

Your question I think is, "On what basis are people making these plant location decisions? Why would they want to shift in time from a slow market to another slow market, or a declining market to another declining market?" Those are much longer-term issues.

As John Hoicka pointed out, obviously for our manufacturing sector, the basic reason why we are experiencing a slowdown is cyclical. It is a recession; sales just have not expanded for a long time and people have to make these decisions. Maybe they are accentuated by the fact that everybody is faced with the free trade agreement here and they have got to make location decisions. Maybe things that you might have put off for another couple of years you decide to do perhaps now.

So to that extent, then, the alternative location is obviously the United States, but the question is, has the United States seen the worst? No, it has not; it is going to experience a recession too that is going to go on for at least one quarter, ie, this one, and maybe for the first half of the year. So I think their manufacturing is going to suffer a bit too. We have not seen the worst yet.

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**Mr Hoicka:** Page 29, just very briefly, indicates another factor in the recent decline in manufacturing and that is the operating income as a percentage of sales. That has declined almost as rapidly as it did in 1982.

On page 30, the first industry and the largest industry is auto assembly and parts. Each dips a little separately because there are slightly different issues involved.

The first key point, and I am looking slightly longer-term than a single year, is that there has been to some extent consolidation of assembly in the Great Lakes area, and in particular there has been an increase in Ontario assembly capacity to 2.3 million units in 1993—that is what we anticipate we will get to when each of these



plants is fully up to speed—from 1.6 million units in 1979. There are relatively few jurisdictions in North America or anywhere else that have had an expansion of that magnitude.

There are a number of reasons for that. The primary reason is location relative to Detroit. Another issue is the attractive labour costs, and as part of that, the health care components of the wage costs, which are quite high for the major auto manufacturers in the US.

Clearly the current slowdown in North America in vehicle sales is having a substantial impact on the market. However, even with that slowdown, Ontario is increasing its share of production, and in fact in 1990 actually increased its output slightly in the face of a fairly significant decline in North American production. That is because, of course, our new capacity happens to be coming on at exactly the right time. This shows that in 1988 we had 13.6% of North American production. It has gone in 1989 to 13.9% and in 1990 to 15.3%. That is close to the peak that we are going to get with this current round at capacity. It will be slightly higher than 15.3%. It may be 16% by the time we get another two or three years down the road.

We anticipate, even with lower 1991 North American vehicle sales, that Ontario assembly will rise slightly. At the moment we are anticipating a US sales drop from about 14.1% in 1990 to maybe 13.7% in 1991. That is pretty consistent with what, for example, the Big Three are forecasting right now. Given that forecast, we would see a very slight increase in total number of units for auto assembly.

**Mr Phillips:** To put the auto industry in perspective for myself, put it in some dimension for me, what per cent of the manufactured goods in Ontario is auto and how does auto split between assembly and parts? And the last question really is, what is going on in the US? If in fact proximity to US plants is important, are the US auto manufacturers building the new plants close to us or not?

**Mr Hoicka:** Let me start with the size. There would be roughly 150,000 people in the auto assembly plus parts industry as compared to something over 900,000 in total in manufacturing. Roughly speaking, it would be split maybe 50,000 in the assembly side and 100,000 in parts. It might be a little bit more and a little less in parts, but that will give you the orders of magnitude.

One important point is that out of that 100,000 in parts, a large minority is actually employed by the majors, for example, GM has a battery plant, engine plant, Ford has an engine plant, etc. Out of that 100,000 maybe 30,000-plus of the jobs would be with the majors. They are important not just because of assembly, but because of the in-house parts.

The second issue you were concerned about was basically how are we doing relative to where they are building plants. Maybe I can deal with that in the next couple of slides because it is more an issue for parts than assembly.

**Mr Phillips:** I just had this mental image that as the auto industry goes—it plays a huge role in Ontario's economy. You are saying it is about 15%, I gather, of the manufacturing jobs.

**Mr Hoicka:** Yes.

**Mr Phillips:** I just wonder what per cent of our manufactured export goods is the auto.

**Mr Hoicka:** It would be much higher. It would be at least 50%, I would think.

**Dr Christie:** Close to 50%.

**Mr Phillips:** So 50% of our manufactured export goods is auto.

**Mr Hoicka:** Yes, perhaps higher than that. It is certainly our largest single export. Close to 85% of our production would be exported outside the country and probably half of the remainder would be exported to other provinces. It is quite important from the point of view of our total exports.

**Mr Sutherland:** You show the Ontario share of North American production for 1988, 1989 and 1990 and that it has increased in there. I want to know, though, how much North American production has increased overall in that time or has decreased in that time, and then not only production but North American production as a percentage of sales.

**Mr Hoicka:** North American production has I think decreased throughout that time. If I remember correctly, 1989 was slightly lower than 1988 and 1990 was a fair bit lower. Total production has decreased. That is because of sales. In fact, offshore imports peaked in 1987 and have declined slowly since 1987.

In part they have been offset by transplants, but transplants of course are providing jobs in North America so that the peak year in percentage terms was 1987 and North American production has been gaining market share since then, although the market has been declining.

**Mr Sutherland:** Just one other question in regard to your last statement that even with lower 1991 vehicle sales, Ontario's assembly is forecast to rise slightly: How much do you mean by slightly? At this stage, is it too early to predict what will happen for 1992, or will we see a decline at that stage?

**Mr Hoicka:** By slightly, I mean pretty slightly, because I think the number was 1.76 million units in 1990 and we think it would be about 1.78, so we are talking maybe 20,000 unit gain given the forecast that we currently have. Obviously, there are all kinds of little things. That is just a number. Lots of things could happen. People might decide they love the Lumina or they hate the Magic Wagon or something like that.

In 1992, in comparison with the number I threw out of about 13.7 US sales, I would say probably—this is not a forecast at this point—most people feel that 1992 will be at least back to 1990 levels and probably higher than 1990 levels, so that it is probably 14.1 to 14.5. In that situation, we will definitely have an increase in auto activity in Ontario.

**Mr Sutherland:** Ontario will have the definite increase.

**Mr Hoicka:** Yes, because we will maintain market share and the market will be moving back up.



**Mr Kwinter:** I just want to make a couple of observations. The industry itself projects—I should qualify that by saying that the auto industry is a North American industry. The fact that it is in Ontario is virtually irrelevant. It has nothing to do with the Ontario market per se. It really is a North American market and 80% of the production in Ontario-based firms goes to the United States.

The industry itself projects that by the year 2000 that Ontario—in fact Canada, but most of it is in Ontario—will actually achieve 20%. These figures show that 1990 is 15.3% but the industry projects that by the year 2000 they will have 20% of the market that will be produced in Canada. Once you get Hyundai in Quebec and Volvo in Nova Scotia, I think 85% is in Ontario.

To answer Mr Phillips's question about what effect proximity to the assembly plant has on the parts manufacturers, there was a report issued by Booz, Allen and Hamilton Inc that was quite interesting. It was quite controversial when it came out. It said that Ontario was one of the worst jurisdictions in which to build cars. That was based on cost, taxation, government policies, all of these things. They said that Quebec was one of the best, only because of the low labour rates and everything else.

Having said all that—and this was not a scientific study, it was a survey—they asked people to respond. When they asked the Quebec auto parts manufacturer, "Where would you put your next plant?" he said, "I would put it in Ontario," and they determined that the number one determinant as to plant location and investment is proximity because of just-in-time delivery.

You have the situation where in Oshawa we have the largest auto facility in North America, the autoplex. When and if Ford completes its expansion in Oakville, it will be the second-largest auto facility in North America. That is what has anchored the auto parts industry here: the proximity and the just-in-time delivery.

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**Mr B. Ward:** On page 30 you mention the increase in Ontario assembly capacity to 2.3 million units in 1993 from 1.6 million units. That is at full capacity, is it not?

**Mr Hoicka:** That is right.

**Mr B. Ward:** Would you know what percentage we are at in 1990? Are we at 70% or 80% of capacity or lower, higher?

**Mr Kwinter:** I can tell you that.

**Mr Hoicka:** I would need a calculator.

**Mr Kwinter:** The plants are running full-time. As a matter of fact, companies like Honda are running at greater than their capacity.

**Mr B. Ward:** And that is who is hiring, I think.

**Mr Kwinter:** Yes.

**Mr B. Ward:** At 100% work.

**Mr Kwinter:** The plants are running at capacity.

**Mr Hoicka:** The next two pages detail a look at the auto parts industry, which clearly is dependent upon the assembly industry. There is a survey of people in the industry compiled by a Quebec professor who determined what kinds of parts should be just-in-time kinds of parts.

As a result of that survey, the different types of parts were categorized as "ought to be within two hours of an assembly plant" because just-in-time was quite important, another group could be two to four hours, another group four to eight hours, and then the final group essentially could locate anywhere you wanted.

We mapped that against the Ontario auto parts industry—this was based a couple years ago—to find out how important location was for the Ontario parts industry. What we discovered was that about 60% of them should be within two hours of an assembly plant, another 20% should be within four hours and so forth. That is not the same thing as saying 60% of all parts in a car should be within two hours; it is just that we have specialized in those things that are just-in-time or we anticipate will be just-in-time products. That then makes the next chart fairly important.

**Mr Sutherland:** You said the way you mapped it these companies or these automotive parts places should be within this level or actually are within.

**Mr Hoicka:** They should be. For example, if the survey had concluded that engines should be produced within two hours of an assembly plant and if we produce engines, which we do in Ontario, we would have included that in among our 60%. So this is talking about the future.

**Mr Sutherland:** Sorry, but I am a bit confused here. Are you saying that that 61% of the engine plants would be within two hours, that they have to be?

**Mr Hoicka:** No, I am saying that of the parts that we produce, 61% are of the type that ought to be near an assembly plant. So if (a) we are producing them and (b) we have a lot of assembly plants near us, then that is a positive indicator for the success of those particular parts operations.

On the next slide, we looked at what was happening to the number or the capacity of assembly plants near Ontario. If you look at the bottom line—the full line is "within two hours"—that was between 1978 and 1983. It declined fairly significantly because, of course, there were a lot of plants that were closed down in that 1981, 1982, 1983 time period.

Since that time period, there have been a number of plants constructed, many of them in Ontario. What that has meant is an increase in our two-hour capacity; the same thing within four hours and the same thing within eight hours. What this means for the parts industry is that it is well located in the sense that an increasing proportion of the auto industry is located near Ontario, so that basically the Oshawa-to-Windsor corridor is extremely good from a locational point of view.

What has happened in the last year has been that even though the industry has been quite concerned about, for example, not only a decline in sales but more particularly the exchange rate—a very high exchange rate makes it much more difficult for it to compete—over the past two years it has been able to maintain its share of the North American market in the sense that its sales have tracked very, very well with North American production.



What that suggests is that the locational factor has been quite important in offsetting the difficulties that the dollar has created for that industry. What is important is that they have not increased their share, even though they have increased sales in Canada, so they actually have lost market share in the US. They have been fortunate in that, to date, on average—and that of course would not be true for some individual parts producers—they have gained through new plants in Ontario.

The steel industry is another major Ontario industry. The key problem in the steel industry is that the industrial world demand for steel has been flat for a decade. There has been essentially no growth. The outlook in that industry, with little pluses and minuses, is also for no growth. What the chart shows is that during the past decade there have been very substantial cuts in employment in both the US and the European Community. There have been cuts, but they have not been as large in Ontario and Japan, so that Ontario and Japan have in fact slightly increased their share of the world steel market.

A second issue which does not show up on this chart is that during the past decade there has also been a trend towards mini-mills and they have taken market away from the traditional large integrated plants. The mini-mills have a higher degree of recycling content. They are located typically at the market rather than near the resource and the quality of their output has been increasing quite substantially. This looks like a continued problem for the future from the point of view of the traditional integrated plants.

What that means for the Ontario industry is that while, on the one hand, it is required to invest in state-of-the-art galvanizing plants—both Dofasco and Stelco are investing right now—its productivity edge has been lost relative to its American counterparts over the past decade. Just as the traditional mills in the US face continued pressure from mini-mills, they are facing that as well.

**Mr Sutherland:** Are the mini-mills a phenomenon just to the US or are they a world-wide phenomenon? Is anything of that nature going on here in Canada?

**Mr Hoicka:** I believe there is some degree of mini-mill activity here, but I would think that the US is by far the most visible indication of mini-mills. It is certainly not the only place. Newcor, for example, has brought on a number of new small-sized mills. These are with phenomenal productivity and energy consumption implications, so there is certainly a lot of concern by traditional mills for the 1990s. The likelihood is that not only will they build more, but that there are some other mini-mills looking at some more new technology.

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**Mr Phillips:** Just putting it into perspective, 250,000 in auto; how many in steel?

**Mr Hoicka:** About 60,000 to 70,000. Wait a minute; that cannot be right. I think in total the number is about 50,000, but it seems to me that would include a lot of mini-mills, steel servicing centres, etc. It may be a high number. I will have to check that.

**Mr Kwinter:** I have a comment. The reasons Ontario has been much less affected by the production and

employment cutbacks are that both Stelco and Dofasco are really state of the art and they have a reputation for being some of the best steel producers in the world. The more significant reason is that the United States, under its restrictions on importing of steel, has Canada under a voluntary restraint agreement at 3.5%. It is one of the few countries that does not have a formal agreement; it is a gentleman's agreement.

The reason is that they use it for an escape valve to counter any strikes they get in the US market. So Canada is always up against that upper limit. Sometimes when there are strikes it goes to 5% or 6% of the US market, which is one of the largest markets in the world. That is why they have been less impacted. Certainly, when the whole economy goes down, it goes down, but when the economy is going well the Canadian steel producers do very well indeed.

**Mr Hoicka:** Page 34, the construction sector: Construction employment peaked in July 1990 and that was about 65% above the 1980 average, just to indicate the strength of the boom during the decade in construction employment. In contrast, employment in December is down 15.5% compared to December 1989. As about September those employment figures started dropping quite quickly in that sector. We would anticipate there will be further declines in both residential and commercial activity because the declines in starts, of course, will come into play as projects are finished up. So we would anticipate further declines in employment through 1991.

**Mr Phillips:** The bulk of the antirecession activity, the \$700 million or the \$1 billion, is in construction, is it not?

**Dr Christie:** Primarily.

**Mr Phillips:** In spite of all of that, we still expect a decline in the construction sector?

**Mr Silk:** As you know, for example, housing starts are falling to 54,000 in 1991 and business investment is also falling, so the rest of the construction sector, which is not being sort of supported by government activity, is not exactly doing very well.

**Mr Phillips:** So the major antirecession thing still will see a decline in construction employment.

**Mr Silk:** I guess the point we made earlier was that both the \$700-million capital spending programs which will trigger, say, \$300 million by the municipalities, plus the \$500 million in terms of the tax break in terms of not imposing the retail sales tax on the GST, will add 20,000 jobs. The point we made earlier was, I suppose, that in the absence of that we would have seen a net job decline in this forecast.

**Mr Phillips:** I think your forecast assumed there would be 120,000 more jobs averagely in 1991 than there were at the end of December 1990. Construction jobs are going to go down.

**Dr Christie:** That is again on average, year over year.

**Mr Phillips:** Yes, I realize that, but as I say, this one surprised me a little bit, to actually see construction jobs, in spite of everything else, still going down.



**Mr Hoicka:** That may start to turn around before the end of 1991, but I think the point I was making here is that they have not bottomed out yet; it is quite unlikely.

On page 35, service sector employment: This is just a brief chart to indicate that we have created a very large number of service sector jobs relative to employment. In fact, I think this happens to show Quebec, but the Ontario service sector employment as a percentage of population is higher than for the rest of Canada. It is important not just in terms of employment within the province, but in effect interprovincial trade through head offices and our concentration of business services, finance and insurance are important to the economy. In fact, there are service exports related to that kind of activity as well.

**Mr Sutherland:** So you have a large service sector and an ever-increasing service sector and it seems to be a declining manufacturing employment sector, yes?

**Mr Hoicka:** I did not happen to include it, but if we had the chart which showed manufacturing sector employment, it would also be towards the top end of that scale. In fact, Ontario provides a very high level of employment relative to its population.

**Mr Sutherland:** Generally, manufacturing employment has better-paying jobs than the service sector, so there is some real impact in terms of revenue the government would be collecting from tax from that change.

**Mr Hoicka:** That would be quite complicated to determine. It is true that on average manufacturing employment has higher wages, but there is a great difference in manufacturing wages and we would have to go and determine, I think, whether it was low-wage jobs or high-wage jobs in manufacturing that were being lost. I think the other point is that there is a very big range of wages, obviously, in the service sector, where there is well over two thirds of the total jobs. It is not true that only the low-wage jobs are increasing. There are certainly certain kinds of jobs such as head office jobs that are frequently higher. It would be hard to answer that question.

**Mr Sutherland:** You are saying it is very hard to determine the shift in employment and the amount of money that the provincial Treasury could get from wages.

**Mr Hoicka:** I personally think that would be an extremely difficult computation.

**Mr Phillips:** This is a very unusual number as a percentage of total population. The more relevant one for me is the percentage of jobs, I think, because this depends on how many kids and what not are around, so maybe for me, I would not mind seeing the percentage of jobs in the G7, which is the one on the next page, a little bit more.

**Mr Silk:** If I can come back and answer an earlier question by Mr Phillips, I just had the numbers brought to me. We were talking about the construction sector and we have talked about basically a \$1-billion capital spending program as an antirecession package. As I was mentioning earlier, I did not give you the numbers but both residential housing and non-residential is down. Residential construction spending, in our forecast, is going to be down \$2.9 billion and non-residential construction is going to be

down \$1 billion, so the antirecession package is a partial offset. It is not by any means a full offset. Consequently, the construction sector as a whole is being supported by the capital spending program, but it is not sufficient in magnitude by any means to offset the weakness in the private sector.

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**Mrs Sullivan:** The negative \$1.9 billion and the negative \$1 billion—

**Mr Silk:** Well, \$2.9 billion.

**Mrs Sullivan:** —are before the \$1 billion or after the \$1 billion of provincial and municipal initiatives, when you are talking about the decline?

**Mr Silk:** After.

**Mrs Sullivan:** So net there will be a \$3.9-billion increase in construction activity?

**Mr Silk:** That is right.

**Mr Hoicka:** Page 36 is the more traditional pie chart. The service sector accounts for about 70% of Ontario's total employment and 60% of output. The two parts that are out give a rough idea of the public sector. The public sector does not particularly follow this classification, but by and large health and education are the main component of the service sector that is public.

Since 1980 nearly 90% of the job growth in Ontario has taken place in the service sector. For 1991, performance of this sector is expected to be constrained by a continued weakness in the economy and by the GST. Of course, that will impact mainly on the private sector part of the service sector.

**Mr Phillips:** Construction is down; manufacturing is down; the service sector is down.

**Mrs Sullivan:** I just want to ask a question about how Treasury is going to monitor the effect of the GST on economic activity. What are you going to be doing to follow whether a lot of your projections are based on a perception of a decline in activity based on the GST? How are you going to be monitoring that?

**Dr Christie:** We will monitor that in the same way, as part of our general monitoring of the economy. I think the clearest indicator of the impact of the GST is the consumer price index. We will be looking at that very carefully over the first few months of the year as the impact of the GST feeds its way through the consumer price index.

**Mrs Sullivan:** I am sure the first month or two will be distorted because of the patterns of retailers who are absorbing the GST or whatever.

**Dr Christie:** There are certainly some retailers who are, for example, advertising that they will pay the GST for January, so it will take perhaps two or even three months to see the full effect of the GST having worked its way into the consumer price index.

The other thing that we will be watching very carefully is the pattern of retail sales because there is obviously some concern that the basic negative impact of the GST will be upon consumption, and therefore directly on retail sales. We will be looking at that side pretty carefully for



the first few months as well and then continuing through the year.

**Mr Kwinter:** Over the past few months when this issue has been discussed there seems to be a tendency to equate all manufacturing jobs with the settlements of the auto workers in the automotive industry, and all service jobs with McDonalds. Is there some way we can get an actual figure of what the average manufacturing wage is and what the average service industry wage is?

**Dr Christie:** We can certainly provide you with that information, but I think that as both Qaid and John described, there is perhaps as much variation within manufacturing and within the service sector as there is between the two sectors. There are certainly low-wage manufacturing jobs just as there are quite well-paid service sector jobs in financial services and business services, areas that do tend to pay fairly well.

**Mr Kwinter:** That is the point of my question.

**Dr Christie:** It is a compositional shift. Depending on the kind of manufacturing job that is being transformed into the kind of service sector job, that is the computational difficulty John referred to in looking at the other question. What we can provide for the committee are average earnings levels in a number of both manufacturing and service sector occupations. That will perhaps give you some sense of the dispersion of these things.

**Mr Kwinter:** What about something like the percentage of people in the manufacturing sector earning over \$40,000 a year, the percentage earning between \$20,000 and \$40,000, the percentage earning less than \$20,000, and the same thing in the service sector?

**Mr Jamison:** There have been studies done further on the percentage of earnings in those various sectors. Maybe we can get a feel on what the growth in the particular areas would be by comparing it back one, two or three in size.

**Mrs Sullivan:** Why would you want to do that.

**Mr Jamison:** You get a feel for the overall income mix.

**Mr Kwinter:** The reason I would like to see it is that I notice a tendency for manufacturing jobs to be perceived as being good and service jobs perceived as being bad by certain people. There just seems to be that feeling of, "My goodness, we are losing manufacturing jobs and that is a terrible thing." It may not be. It may be that this economy would be better served by getting more and more high-quality service jobs. I do not know. It would be interesting to see what is happening and where that is going.

**Mr Trick:** On that point, there is a study which looks at this question in a fair bit of detail that I can certainly provide to the committee, which Statistics Canada did about two years ago. It asked the general question, "Is it true that because we are shifting to a service economy we are moving towards bad jobs rather than good jobs?" The general conclusion they came to was that within each occupational category, whether it was manufacturing, professions, services or whatever, the increased dispersion within that category was far more important than the shift from manufacturing to services, essentially confirming the point

Bob Christie was making earlier. If you would like, I can provide that to you. To my knowledge, that is the most thorough study of the question you raised.

**Mr Hoicka:** Just a last comment, if I can clarify, on page 36: I indicated the service sector would be constrained in 1991. We were not calling for a negative service sector. That was constraint relative to earlier years, so it will slow down although we would say there will be some growth in the service sector.

Page 37 indicates that one of the toughest areas of the service sector is the part related to tourism. Again, it does not fit the standard classification since there are jobs in a whole series of the different components on that previous page. Looking at trips, first of all, they fell in 1989 and expenditures fell. Preliminary indications are that they fell yet again in 1990, and our anticipation is that they may fall to some extent in 1991. In each of these years the factors have first been slowing, and now recession of the North American economy, and of course in 1991, with a recession in the US, that will affect tourism from the US.

High real interest rates are a significant issue, as is rising unemployment, and the exchange rate has certainly had an impact on a large amount of tourism, certainly on people coming to the province and to some extent Ontarians leaving the province and going to the US for vacations.

The conclusions are more medium-term conclusions. First of all, the resource sector outlook depends on the Canadian dollar as well as the US outlook because of its export orientation. We anticipate that it will likely resume and in fact grow during 1991 and continue to have slow growth in 1992.

The construction industry seems to be the most difficult situation, in particular with commercial overbuilding, that aspect. It may be easier to turn around the housing sector than the major projects, where starts have been declining for at least over a year now. It just takes a long time, once that sector goes down, for it to build up again.

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In Ontario manufacturing industry, particularly the motor vehicle group, industrial products and investment goods are generally well positioned for recovery in the US as well as Canada, but the caveat we would leave is that output will turn around much more quickly than employment in manufacturing. We will see significant productivity increases. Obviously, the speed at which that output turns around will depend on the US economy, interest rates and the Canadian dollar, because quite a large proportion of manufactured output is exported to the US.

**Mr B. Ward:** I have a question on page 37, the tourism sector, if we can backtrack for a moment. The figures from 1988 to 1989 show that trips made in the province by Ontario residents were down considerably, 25.6% from 1988. When you talk about 1990, you mention, "The expenditure in tourism will remain weak but stable due to increased travel within the province by Ontario residents." Are we up substantially from 1989 on Ontario people visiting other areas within the province? How did you arrive at that statement?



**Mr Hoicka:** I think we are up but not substantially.

**Mr B. Ward:** They must have spent more, then. The visitors from the United States and other countries are down in 1990 from 1989, yet the expenditures are stable, "weak but stable."

**Mr Hoicka:** Let me see how to phrase this. Relative to 1989, which was a very poor year for Ontario residents visiting places in Ontario, 1990 was a better year for Ontario residents visiting Ontario, and in general that offset continued declines in international and other-province visiting to Ontario.

**Mr B. Ward:** You have statistics from 1988 to 1989, and then to make the statement that travel within the province by Ontario residents—you must have some stats to make that statement. Is there a percentage?

**Mr Hoicka:** We would have to come back with some data on that.

**The Chair:** Is there any indication of what the impact of the cross-border shopping is going to be on the international travel account deficit in terms of Ontario?

**Dr Christie:** We do not have any precise figures on that yet. Part of the issue is the fact that people can cross so easily without a lot of recording of what is being carried across the border, which then makes it difficult to have solid statistics on what is actually happening there. Much of the information which has been discussed here I believe comes from survey information that the Ministry of Tourism undertakes, and it would not likely be very good at capturing the cross-border element of the problem.

**The Chair:** Because it does seem to be a growing factor in revenue maintenance, especially for Niagara region, where sales at service stations—that will cut out revenues for gas. There is an awful lot of buying going on across the border and that would cut out some sales taxes that would normally be paid. There are large items being purchased now and this will only be compounded by the GST and by the fact that as more and more of the tariffs are removed due to the free trade deal there is less and less incentive to shop, at least in the Niagara area, in Canada, and there are huge numbers going across the border.

**Dr Christie:** And a factor in that is that the dollar at 86 cents or 87 cents makes it a lot less expensive to shop across the border than it was when the dollar was 77 cents.

**Mr Phillips:** You said manufacturing depends a lot on the US. Maybe you already told me this, but what percentage of our manufactured goods are exported?

**Mr Silk:** Internationally 50%, and I think something like—I will have to check the number—15% is exported to other provinces. From our point of view, almost two thirds of our output is exported outside the province.

**Mr Phillips:** So 50% is international and 85% of that is US or something like that?

**Mr Silk:** Let me check. We will get back to you.

**Dr Christie:** The committee may be relieved to know that much of the rest of the paper here is an appendix. However, we do have a couple of slides that look at the

regional situation across the province. I will ask John Taylor to take us through those.

**Mr Taylor:** The table on page 39 shows the regional and community economic conditions. To explain up front, it is an average of the unemployment rates for the communities and regions between October and December. The reason for that three-month average is that the labour force information is presented on a monthly basis that is unadjusted for seasonal variations, so there is a tendency for month-to-month variations that cannot be accounted for. It is a statistical problem, and this helps to smooth out some of that variation.

In terms of the highest regional unemployment rate, that would be in northeastern Ontario for the last quarter of 1990. Northwestern Ontario would be 8.1%, the second highest, followed by the southwest at 7.2%. Central Ontario's unemployment rate averaged 7.2% and the eastern part of the province was at 6.7%. It gives an overview of where the various regions are at in terms of their employment situations.

On a community basis, the Thunder Bay and Sudbury areas, along with Windsor, have higher unemployment rates in the province; St Catharines-Niagara also, just under 10%, followed by Kitchener-Waterloo and Hamilton. The biggest problems in terms of community unemployment certainly tend to be in the north. Windsor and the manufacturing areas would be related largely to the layoffs in auto parts manufacturing.

**The Chair:** I notice that Ottawa has gone from 5.6% to 5.4%. Is that because of the GST as well?

**Mr Taylor:** I will have to check on that for you.

**Mr Sutherland:** If I could just ask a question about the Windsor rate. Maybe you can answer this. Windsor, I would assume, is traditionally higher than London?

**Mr Taylor:** I believe it is.

**Mr Sutherland:** Do you have any way of knowing what that traditional rate would be, what the difference would be on average between Windsor and London? I guess the point I am trying to get at is how much that gap has widened in the last two years. Do we have any way of getting a handle on that?

**Mr Taylor:** We can look back and see how, over the last few years, that trend has been and how close they have been and probably could give you some assessment as to what the differences are and why they have changed.

**Mr Hansen:** We were just talking about cross-border shopping in the tourism part. If you take a look at Thunder Bay, they have a certain problem up there; it looks like the forest industry is affecting them also. If you get down to the St Catharines-Niagara area, which I am from, you get 9.2%. I know we had the auto industry, but we are having retail stores closing in the Niagara area, so I think there is a good reflection on the closeness to the border on the shopping, with the purchase of gas, etc, which is a loss to the income. Windsor also, close to the border. We are talking about the auto industry being down, but I think there is something in common, if we look at all border towns, having a problem with unemployment. I know some other



groups are coming in to talk to us on these issues and maybe familiarize us a little better with what is actually going on in these areas.

1600

**Mr Kwinter:** I just wanted to comment on Mr Sutherland's question. London traditionally has the lowest unemployment rates and Windsor traditionally has some of the highest unemployment rates in Ontario. I do not know whether it has changed vis-à-vis each other's relationship, but traditionally that is the way it has been. It has always been that way.

**Mr Taylor:** The following page, page 40, goes back to the layoff situation. We have shown it here by region. The right-hand column shows the change in the number of layoffs by region between 1989 and 1990. Central Ontario has had the highest increase in layoffs, almost 8,000 out of a total of 14,000 province-wide; the southwest just over 4,000; followed by the northeast at around 2,600, 2,700. Both the east and the northwest have gone in the opposite direction. They have experienced fewer layoffs. North-eastern Ontario would be largely related to the mining sector, Elliot Lake and the Kirkland Lake area as well, for the iron ore mines. The manufacturing in central and south-western Ontario has been the hard-hit sector in those cases.

**The Chair:** I have a list of questions. While they do not relate to your presentation, some of them do, and I think they will have a direct impact on what we need to know in order to bring forward a paper that would be useful to the Treasurer. If you cannot comment on them now, perhaps you could find the information and send it along to us. These are my own, and I think others will have some.

I am interested in the cost-sharing programs. Have we any indication of the direction of the federal government in terms of whether it is going to maintain what used to be a traditional relationship in the cost-sharing programs or whether in fact it is going to continue with the most recent trend, that is, unilaterally decreasing the amounts of transfers coming from the federal government?

**Dr Christie:** I think the most recent expression officially from the federal government was in last year's federal budget, at which time it announced further cut-backs to the established programs financing and the capping of the Canada assistance plan. Those are actions which are continuing to have effects and will continue to have effects next fiscal year. They have not given any indication of further steps in that area, although they have continued to signal their commitment to keep their deficit down. They have indicated that further action on that side will be forthcoming in their February budget, February being the conventional time; they have not announced the budget date yet that I know of.

**The Chair:** Is there any projection from the ministry of what the transfer payments are going to be from the income tax rebates the federal government collects, Ontario income tax? Do we have any idea what kind of sums they are going to be and how much they will be down?

**Dr Christie:** I am not sure I understood the question. Are you referring to the personal income tax revenue due to Ontario that is collected by the federal government?

**The Chair:** Yes.

**Dr Christie:** I do not have that information with me. I will take that under advisement in the context of the other revenue question.

**The Chair:** Another question I have, and you have alluded to it throughout your briefing today, is the value of the Canadian dollar. Have you made any projections about what you think the value of the Canadian dollar will be at the end of this year?

**Dr Christie:** I will ask Qaid to answer that question. He has the specifics.

**Mr Silk:** Underlying the forecast we presented, we have an average exchange rate in 1990 of just over 85.5 cents. We saw that coming down in 1991 to 84.5 cents through the year, so by year end—I do not have the figure; I am looking behind for the person who might—it is on a downward trend, averaging this year about one cent lower than last year. It is on a downward trend. That is partly because interest rates are coming down too. They are coming down in the US as well in our forecast; they are coming down in Canada as well.

**The Chair:** I would like to know what you base that on, given that about a year ago the feds dropped the central bank rate and that caused a decline in the value of the Canadian dollar, and they automatically turned it around and sent the dollar back up. Why are there projections that the value of the dollar is going to be allowed to go down even though when they had an opportunity to allow it to go down a year ago, they did not?

**Mr Silk:** I do not want to speculate on how the Bank of Canada runs its monetary policy. January 1990 is I think the incident you were referring to, when it dropped 29 basis points in one week and the market got very nervous and there was a run on the dollar.

The point is that the economy is very weak in North America, in Canada as well. We have seen interest rates drop fairly significantly over the last three or four months. Now the bank rate is I think the lowest it has been since early 1988 or something. Of course, prime rates have also dropped quite significantly and mortgage rates have dropped. This is happening in tandem with US rates coming down, which is keeping our dollar up, and partly because of the uncertainty of our oil prices; the Canadian dollar being a bit of a petrocurrency is keeping our dollar up.

But as the economy continues to weaken, the Bank of Canada does have room to move our interest rates down and, more important, narrow the spread between our rates and the American rates. The consequence of that would be, obviously, that the dollar would fall.

In a sense your question may partly be why people think the dollar is overvalued. There are various reasons for that. We have a merchandise trade surplus but a current account deficit. Most economists in the profession, especially in the private sector, consider that the Canadian dollar is overvalued at 86 cents or 87 cents, that maybe its



value should be 78 cents to 82 cents or 75 cents to 80 cents, somewhere in that range, given our productivity level, given our inflation performance with the US, and given our current account deficit.

The pressure on the dollar is down, and the way to prop it up is obviously by higher interest rates. A weak economy removes that prop. The bank has conceded that the GST will obviously add to inflation, but if there are no second-round effects of that the bank has sort of considered that it will not react to the higher first-round inflation by jacking up interest rates, as long as the second-round effects in terms of wages and prices do not show up. That tendency would suggest that the spread would narrow and the dollar would fall.

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**The Chair:** The reason I asked this question is because what happens to the dollar and what happens to interest rates has a two-fold impact. One of them is that since we have a projected deficit, we are going to have to borrow money and we are going to have to pay it back presumably or we are going to have to pay the interest on it and those capital costs are going to have to be included.

The second reason I asked that question is because if you are projecting that the value of the Canadian dollar is going to fall and your projections are wrong, there is going to be an impact on what happens in terms of the budget and what happens in terms of the Canadian economy, revenue and financing. So there is a connection here. Have you calculated the scenario where the interest rates fall but the Canadian dollar stays high, and then the other scenario where the interest rates are sent back up to keep the value of the Canadian dollar higher, even though we are still in a recessionary period?

**Mr Silk:** Maybe if I can first give you some facts, I sort of said the dollar would drop. What we basically said was that we had an 85- to 88-cent US range in 1990. You saw that. We are basically saying that it would be down from that to the 83- to 86-cent range. By year-end it might be around 83 cents, let's say. The point is, how sensitive is the Canadian economy, especially the Ontario economy, to higher interest rates and a higher dollar? It is quite sensitive. The point however is that, at least in the forecasting sense, we have to ask ourselves why the bank would be interested in a high dollar. Per se, it is interested in it not so much for its sake, but obviously in terms of its inflation impact and a higher dollar means inflation effects are more subdued.

If for other reasons inflation is already trending down, and as I said for example, for the GST there are no second-round effects, if oil prices are down and that softens inflation, the bank is not committed to a high dollar for a high dollar's sake. It is committed to moderating inflationary pressures, and for other reasons inflation is coming down. There is room to manoeuvre for the bank. Our bet is, given our forecasts, that excluding the GST, inflation will be lower in 1991 than in 1990. With US interest rates coming down, the bank has got itself some room. Whether in any given week it miscues, as it did in January 1990, that is a

different issue and the question is, what kind of approach would it take?

**The Chair:** I would like to pursue that. I would assume that Sinclair Stevens, who has offered a suggestion as to why the central bank rate would stay as high as it is—and the value of the dollar is up there. The other thing is that given the disastrous effects of the high value of the Canadian dollar on the Ontario economy and on the Canadian economy as a whole, one would have had to ask that question about a year and a half ago when the trend started to move the dollar higher. Since there is no economic gain for Canada and Ontario to have a dollar at that height and yet we do, one would still have to ask the question, have we taken into consideration that there may be reasons other than economic reasons that the value of the dollar remains high, and have we calculated that, just in case?

**Dr Christie:** If I could offer one comment on that first of all we have not calculated scenarios in which the dollar or interest rates stay high for non-economic reasons. In particular, probably the most convincing scenario that we might look at in terms of higher interest rates and a higher dollar would be one in which we had underestimated how strong the economy was or how much inflationary pressure there was left. In that case, we might see a somewhat stronger economy than we think, to which the Bank of Canada reacts by imposing higher interest rates on the higher dollar, which might mean more strength in the near term but more weakness in the longer term. We are pretty sure we are not underestimating the strength of the economy, so that is not a scenario that we have looked at in any detail.

**Mr B. Ward:** A quick comment-question, I guess. These are very troubled times and there are so many variables in any type of projections. Do you find that this is one of the most difficult periods that you have had, in your experience, to attempt to project where the economy is going and where the Ontario economy is going because of the variables that are obviously thrown into the puzzle, so to speak?

**Mr Stockwell:** Last year was the worst time.

**Mr B. Ward:** Was last year worse?

**Dr Christie:** I suppose the first comment would be that the big noneconomic variable on the scene is the Middle East. That is always particularly difficult for economists or anyone who is not a military person, and I rather suspect it is very difficult for people with a military background as well. These things are inherently unpredictable, and there are far more issues involved in what is going on over there than what effect it has on Ontario's economy. However, having said that, that is one of the big clouds over what we are looking at in terms of the next year coming up.

Bank of Canada policy is another big question mark. The comment has been made that it is difficult to understand why interest rates and the exchange rate have stayed so high for so long. The only explanation we have been able to come to is that the governor is very serious when he says he is pointing towards zero inflation. That is



something that we have some difficulty coming to grips with in terms of a forecast like this, because we have not seen a convincing explanation of the benefits of zero inflation, given that we know what the costs of the policy are.

So those are two uncertainties. Having said that, times are always uncertain, but these probably are more uncertain than most.

**Mr Phillips:** We will get the revenue estimates I think in a couple of weeks, as you said, when we get the third-quarter stuff out, but my question is, what attention should the committee pay to the province's credit rating? Let me just go on a little bit with that. I gather we have a debt of about \$40 billion and Ontario Hydro has a debt of something. We guarantee the debt of Hydro I think. The gentleman said Canada has a trade deficit of \$15 billion a year, I guess, and it borrows offshore. The federal government borrows a couple of billion dollars.

I am just trying to get an idea from the Treasury people. What are the benefits or lack of benefits on whatever our credit rating is today? How much of our debt do we borrow offshore, outside of Canada, outside of Ontario, I guess, and is there any consideration we need to have as we look ahead at borrowings that will be required for the province in the next 12 to 18 months the way that we are rated for credit purposes, and just whether that should be something that we are thinking about?

**Dr Christie:** I find it difficult to offer advice on the committee's agenda. It is certainly a matter of concern to most governments and to most governments at these kinds of times, not only because it affects the cost of borrowing, but if my Treasury and capital market colleagues were here, I think they would tell you that it also affects the availability, that there are a number of organizations that will have restrictions as terms of their lending, will have restrictions on, "I will only have so much double A, or I will only have so much single A." What they will not have is restrictions on how much triple A or double A-plus, for example, and if in very uncertain times people prefer to have those higher quality—as determined by the ratings—credits, there may well be some value in that credit rating in terms of simply the ability to access those funds. So there are generally held to be both cost and availability benefits from the higher credit rating.

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**Mr Phillips:** Could I just ask you a specific thing, because maybe it is too general. How much of our debt do we service offshore? Our debt is \$40 billion, but I do not what Hydro's debt is. In terms of not just the availability but the specifics, what is the impact of a lower credit rating? Is it like 0.25 of an interest point or is it different?

**Dr Christie:** The quarter of a per cent has been used. I have heard it used in the past. If there is a current estimate, we would have to confirm that.

In terms of how much of the \$40 billion is foreign borrowing, my understanding, and again subject to confirmation, is that it is primarily held by our Ontario teachers' pension fund, the public service fund, Canada pension plan or example, so it is almost entirely in Canadian dollars held in Canada. Now as those funds are lending the money

other places, it may be in future at some point that there would be a significant amount borrowed abroad, but at the moment I do not believe that is the case.

**Mrs Sullivan:** First of all, I have some things that I want to add to the list of information that I would appreciate Treasury coming back with, but I also want to go back to Qaid's remarks in response to your questions, Mr Chairman, about the Canadian dollar and so on. You are predicting a 6.1% increase in the CPI for the 1991-92 fiscal year and you have indicated that you feel that the Canadian dollar will come down because real inflation is basically decreasing and the difference is the effect of the GST on the CPI. Are you predicting then the GST effect on CPI at, what, about 1.5%, or where? What is your figure?

**Mr Silk:** For 1991 we had built in one and a half percentage points for GST. That is slightly higher than the estimate of the Department of Finance of 1.25. We also differed on the fact that we thought there would be to some extent second- and third-year effects, much smaller but none the less there. We might have to revise that a bit given a very weak economy, but there may not be sort of some spillover into future years.

That is the impact we have, so with a 6.1% inflation rate for Ontario, excluding GST, we would say 4.6, let's say, which is less than last year's 4.9. The governor has already said that he understands the GST will boost inflation, and as Bob earlier pointed out, one of the things we are going to find out from Statistics Canada actually when we publish the CPI in the next few months—it may not show up in January, for a variety of reasons, where retailers are trying to sort of bite the bullet or whatever, but none the less over a few months it will become clear as to what extent that thing has been passed on. The governor has said, if in future months or in future quarters that does not show up, then he will consider that a one-time bullet which he is willing to live with and not jack interest rates in response to that.

**The Chair:** With the indulgence of the committee, it is 4:25. If I allow five more minutes for questions, we do have one more piece of business that we have to do before we leave tonight.

**Mr Jamison:** Many of the questions that have been asked in the committee have dealt very plainly with the policy of the Bank of Canada and again, I just have to really say that I am rather concerned that the Bank of Canada has not chosen to really give us any kind of submission at all. I know that we are going to get submissions from the Toronto-Dominion Bank and the Royal Bank, but those banks really follow suit and I really feel that it would be extremely important to try to get some kind of submission from the Bank of Canada on this issue, outlook and suggestions, and hopefully have someone here whom we could ask questions specific to the economy. I just want to express my concern.

I think it is evident today that again many of the questions that have been put forward deal specifically with the position that the Bank of Canada will be taking or has taken or whatever. I really think it is important to try to



readdress that invitation with it, because this province represents one out of three Canadians. I think it is important enough that it make a submission. I really do not understand that it cannot make time for the province of Ontario.

**The Chair:** I agree with those sentiments entirely. In fact I would ask the clerk to try again to pursue and have a written reason sent on to us why it will not appear before this committee.

**Mr Christopherson:** I have obviously had the opportunity to have almost all of this material given to me in briefings through the department with the Treasurer. One question that I did not ask and that comes to mind now is, two of the main variables over the last few months in predicting where things might go, of course, were the price of oil and the American economy. Since then, with the advent of the war, we know what it can do to the price of oil if it is a prolonged war, but what might it do to the American economy? Given how that would impact on us, I can think that initially there could be a boom, the old argument that war is positive for an economy; yet the briefing here states that it is intensifying the recession. Briefly, could staff just touch on what the short-, medium- and potential long-term effects of the war on the American economy as it relates to ours might be, please?

**Dr Christie:** I think the approach that we have taken has been more hooked to oil prices. The war will have two or three fundamental impacts, the first being oil prices. That may go one way or the other, depending on the course of the war. The learned people who discuss these matters seem to relate that side of it to whether there is destruction to production or distribution facilities outside of Iraq and Kuwait and those are things that we will watch for in terms of our monitoring of the economic impact of it.

The United States, from the perspective of oil prices, is very much like Ontario. It is an importer, so the negative impact of oil prices is as we described for Ontario; that is, it is like a tax levied by the rest of the world on the United States, and the reduction in economic activity resulting from that on the US side would then feed through to us because it is the biggest customer on the export side.

The possible upside, I suppose, of war would be government spending in the United States. To the extent that it needs to replace facilities or equipment, it might run a higher deficit and would require a higher deficit to have any of the standard economic multiplier impacts. If in fact, as appears more likely given its deficit problem, any additional spending it undertakes with respect to war is financed by either raising taxes or cutting other problems, as our federal government has indicated it will do, there would not be any material economic benefit coming from the war; perhaps a minor postponement of the so-called peace dividend, but we would not add any positive side to our economic outlook on that account.

1630

**Mr Christopherson:** I have had a chance, individually and in private, to thank some of the staff in Treasury—and I guess all the ministers and parliamentary assistants might feel this way and may be taking their opportunity—

for the kind of work, support and co-operation they have shown. None of us really knew what we were going to walk into, quite frankly, especially with Treasury, and there were interesting dynamics in the early days, watching all of us try to see where we are all coming from.

I would like to say publicly how much I appreciate the efforts of each and every one of the staff that I dealt with in Treasury. Without exception, they have done everything they can to make the transition as comfortable and as easy as possible and have played a positive, supportive role. I want to take the opportunity to thank each of you for that. It is much appreciated.

**Mr Kwinter:** I have a question about the unemployment rate. The present unemployment rate is at 7.8% and you project that that will be reduced to 7.3%. How realistic is that?

**Dr Christie:** At the very start of our discussion one of the points we tried to bring to the committee's attention was that there has been new information come to light in the past couple of months since this forecast was made and it creates certain downside risks in the forecast. I think the unemployment rate is really a classic example of that. I believe that even two months ago that rate was in the high sixes or low sevens. It has been in the last two months really that it has gone to the 7.8% level.

While we have not redone that number for the purposes of the public forecast yet in the budget, we will be looking at that over the next couple of months. Obviously the fact that the December number was 7.8% is going to make it somewhat more difficult for the economy to achieve that average forecast over the year.

**Mr Kwinter:** Are there 20,000 new jobs factored into that already?

**Dr Christie:** No, the forecast of zero net new job next year included the impact of the antirecession program. Without that the forecast would have been minus 20,000.

**Mr Kwinter:** Okay. My other question is, when you talk about the real external trade and you are showing very little growth and given that trade constitutes about a third of our gross domestic product, has that been factored in as well?

**Dr Christie:** Yes, that is factored in.

**Mr Phillips:** Can I go back to that debt thing again and the end of it? I would not mind hearing from somebody from Treasury who was really intimate with this because I look at your document and it says here, "As a result of these pension reforms, the province will no longer borrow from the teachers' and public service pension plans."

Later on it says, "In view of Ontario Hydro's growing borrowing requirements and the possibility of the province's public market borrowing in the future, the province and Ontario Hydro are developing a global financial strategy to take advantage of financing opportunities in both Canada and international capital markets."

The point I am making is that, for me at least, I do not think we are going to borrow from the teachers' and the public service pensions in the future. I do think we are



going to service it offshore or out of Canada and I would not mind some time between now and when we finish maybe hearing from somebody from Treasury who works—I am not suggesting you do not work in the area, but someone maybe more deeply involved in it.

**Dr Christie:** I think we can find someone who is more deeply immersed than I am.

**Mr Stockwell:** I wonder if it would be the committee's recommendation or staff's, I am not sure whose, but I would really like to see some revenue projections. I find it very difficult to deal with any kind of recommendations or have any kind of consultation without revenue projections. It is like dealing in a vacuum. I am not asking for where you are going to spend the money or spill your budget. I am just asking how much are we down, how much more we expect to go down and how much money we see ourselves short for 1991. Unless you do that, there is very little valuable input that we can give the Treasurer.

**The Chair:** Mrs Sullivan gets the last word.

**Mrs Sullivan:** There are some things that I think would be useful for the committee to have. Some of them relate to the economic side; others relate to other parts of the ministry's operations. Out of your projections relating to new unemployment rates and changes in employment, I wonder if we could see your projections on changes in uptake for the FBA and general welfare assistance.

I think the Chairman has asked for an analysis of federal offloading and the kinds of difficulties that creates in Ontario over the next fiscal period. I would also like to see a similar analysis for changes in the unemployment insurance legislation federally, both decreases and increases in terms of our revenue situation and the net change.

I was interested in your charts relating to business investment activity. I have been reading materials lately, both from Statistics Canada and from research institutions, that suggest that while capital expenditures will be down, research and development activity will be significantly up. I wonder if you have further data on that.

If I could as well go back to a theory that certainly the previous government believed, that debt is not only in dollars but also in facilities, I wonder if Treasury could provide an analysis of infrastructure requirements, particularly in the greater Toronto area, as well as in the broader regions of Ontario, particularly relating to water and sewer issues and the kinds of financial requirements that will be needed over the next immediate period of time to meet those.

What I also think it would be useful, since this has not been included in the material that you provided, would be an analysis of self-employed new business startups and bankruptcies in that sector and what the impact would be of applying the employer health tax to self-employed.

**Mr Christopherson:** Is that all?

**The Chair:** There is one question left. I would like to know how much the GST is going to cost the provincial government, how much taxed is the running of the government.

**Mrs Sullivan:** I too would like to thank Treasury for being here.

**The Chair:** On behalf of the whole committee, I would like to extend our thanks to you for coming. If we have any further questions, we will send them along to you as they arise. We are just at the beginning of this process, and I think that by the end of the process, after hearing some 60-odd submissions, we may have some more questions for you. Thank you very much.

Before everybody disappears from the committee, we have another piece of work that has to be done. We seem to be very popular and there seem to be a large number of people who would like to come before us. In fact, we have more people than time allocations. We must make a decision as to what we will do. As soon as Mr Decker finishes handing it out, we will let him describe what the situation is and what we might do.

**Clerk of the Committee:** At its last meeting, the committee authorized the subcommittee to proceed with scheduling and to hold a meeting early in the new year to do that. The subcommittee did so and instructed me to leave the last two days of public hearings unscheduled so that the committee would have some flexibility in choosing among the groups that were still on the waiting list to make presentations.

The appointments for next Wednesday and next Thursday have not been set. There are a total of 20 appointments available and on the list as it appears now there are still 30 groups to be scheduled. I do not know how the committee would want to handle that, whether it would be to meet on Fridays or spill over into the next week.

1640

**The Chair:** How much time is there in these allotments?

**Clerk of the Committee:** Thirty minutes.

**The Chair:** Would it be possible that we could shorten them to 20 minutes and do three in an hour as opposed to two? I am looking through this list and I see number 30 on the list is an individual who has already sent in a letter. While the issues are very important to him, I do not think he is going to take a half-hour and I do not think we would want to spend a half-hour. There may be more like that.

**Mr Kwinter:** Can I make a suggestion? What we might do is have the clerk go through the 30 names, find out where there is duplication, where there are people pretty well in the same areas as others that have already come in, and allow them a lesser time, not to sort of disqualify them, but maybe to have 30-minute intervals for people who are bringing new information from new groups that we have not had any information from. We might give a shorter time to those bringing information that we have already heard from people in the same field.

**Mr B. Ward:** I think an example would be the Toronto Home Builders' Association. We are receiving a brief from the Ontario Home Builders' Association and there may be some overlap. That would be an example of a shorter time, where 30 minutes would not be required in that particular case. I think it is a good idea.



**Mr Kwinter:** I am not talking about your schedule. I am talking about this list of people who have not been scheduled.

**The Chair:** It is the same with the home builders and the Urban Development Institute. These are pretty much crossovers.

**Mr Phillips:** I thought I heard three weeks of hearings. Was I incorrect?

**Clerk of the Committee:** The committee has authority to meet for three weeks. It was the feeling of the subcommittee that the public hearings be held in the first two weeks and the third week be reserved for preparation of a report to the House.

**The Chair:** You probably know this better than I do, you have been on more committees, but we have to come back and hash out what we want to say, with great wailing and gnashing of teeth.

**Mr Stockwell:** That will take a couple of minutes.

**Mr Phillips:** At least one of these groups we should hear from. I have just glanced at them and there are some pretty powerful organizations.

**The Chair:** We could add a Monday morning or a Friday.

**Mrs Sullivan:** Why is 30 January not scheduled? Is that where these ones are going?

**Clerk of the Committee:** Yes. The subcommittee wanted to leave the committee some flexibility so it left two days unscheduled. There are a total of 19 spots available on those two days. While the subcommittee did not want me to schedule them, they did want me to schedule the Ontario Nurses' Association. The only day they were available was the 31st, so one of those I committed to them.

If we were to add, say, a Friday morning from 10 to 12 that would be four time slots, and then a Monday afternoon of the next week when we would be writing a report, that would give us six. That would take all 30 of them and leave the remainder of the week for writing a report.

**The Chair:** There is a possibility of a Monday morning. How does that feel? Some people have a lot further to come than others.

**Mr B. Ward:** I move Monday. Slot them in on a Monday.

**Clerk of the Committee:** Next Monday and the following Monday.

**Mr Stockwell:** When you tell them you are reducing their time limit, they are not going to be keen on it.

**The Chair:** There is going to be a time limit.

**Mr Stockwell:** I understand there is a time limit. If we can make accommodations to hear them all the same length, I would be prepared to do that.

**Clerk of the Committee:** I think there are three individuals on this list. What I could do is schedule these individuals at the very end of a morning session or an

afternoon session and there would be nobody following, so the committee could spend as much time as it wants. If you only spent 10 minutes, you would not be sitting around waiting for the next group, you would spend 10 minutes and that would be it. They would make their presentation and if you had no questions, that would be the end of the meeting.

**Mrs Sullivan:** I do not see the Ontario Federation of Agriculture on this. I think we should request them to be here. I think it is very important that they be here as the sector that the Ministry of Treasury and Economics has identified as one that is in a difficult transition. I think that we should be hearing from them, even if we have to drag them here.

**Mr Jamison:** I agree with that. There are important issues that are relevant to the economics of GATT and so forth. I think it is very important that they be here also.

**Mr Christopherson:** Are we talking 10 o'clock on Monday morning being enough to accommodate everybody?

**Clerk of the Committee:** If we met next Monday morning in addition to Monday afternoon, that would give us two hours next Monday morning to accommodate four groups. The following Monday would also be another four. That would give us 8 out of the 10. There are a couple of spots on the full agenda that are open as yet.

**Mr Christopherson:** Then I think this is what we ought to do. I would suggest, though, if we are going to get into a situation of not being able to meet, I agree with Mr Stockwell. If you are going to reduce people, you are probably better off to be arbitrary and say, "We have someone representing your sector or your concerns already, so we will receive your written and the oral just will not be possible this year." If you start giving some people 15 minutes and some 20 and others 30, you are really looking for trouble, so I agree with that opinion expressed by Mr Stockwell.

The other thing is that I thought Mr Kwinter had a good idea about comparing who has spoken already when deciding who we might have to not hear, but I did not quite understand why we would not go back to the original list also. I mean we should take a look at who is left that has not yet been heard or slotted and compare it there. It should not just be out of the remaining. We would deny, if you will, from the remaining, but the comparison should go right back to the beginning of everyone that we have heard. I think with all of that, we should be able to come pretty close to satisfying most everyone's needs and ensuring that we have covered the broad spectrum.

**The Chair:** We could start at 1:30 as opposed to 2 o'clock. So start at 1:30 and schedule two Monday mornings?

**Mr B. Ward:** And invite the OFA.

**The Chair:** Yes.

The committee adjourned at 1649.



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## Official Report of Debates (Hansard)

Tuesday 22 January 1991

Standing committee on  
Finance and economic affairs

Pre-budget consultations

# Assemblée législative de l'Ontario

Première session, 35<sup>e</sup> législature

## Journal des débats (Hansard)

Le mardi 22 janvier 1991

Comité permanent des affaires  
économiques et financières

Consultations prébudgétaires



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Clerk: Todd Decker

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday 22 January 1991

The committee met at 1004 in room 228.

### PRE-BUDGET CONSULTATION

#### TORONTO-DOMINION BANK

**The Chair:** Please introduce yourself and the people with you.

**Dr Peters:** I am Douglas Peters, the chief economist at the Toronto-Dominion Bank. I have with me Dr Ruth Getter, who is a senior economist in the bank. We are here to present our views on the outlook for the Canadian economy. Dr Getter is the person in my department who handles that particular forecast. She is going to make the presentation to you for a few minutes and then we will be quite happy to answer any questions you might have.

**Dr Getter:** Good morning, everybody. First of all, I have handed out three pieces of information. This is Canada's Business Climate, which is our latest macro-forecast, which was just released I think at the end of December. That was obviously before the war started, but it gives you our latest view.

Report on Ontario: Recession and Recovery is something I put together a couple of weeks ago for the department, for our clients, for internal purposes, and I thought it would be appropriate to bring it here, because that is our latest view on Ontario. That was done on the basis of that macro-forecast.

The third item is Report on Provincial Finances, and what I would like to stress here is that this was done on the basis of last year's budget. It is a comparison of all the different fiscal positions of the different provinces, but it is obviously based on what we now know to be obsolete information, especially for Ontario, so please bear that in mind. I just brought it to you in case you want to make any kind of interprovincial comparisons. That is the most comprehensive data one can get. We will do another one of these when all the provincial budgets are released this year.

By the way, if this committee would like to have our regular updates and publications about provincial economies or anything, please let me know because we make those available to whoever wants them. I know Treasury gets all our stuff, but if anyone on the committee wants it, that is fine.

**The Chair:** If you could put us on the mailing list, that would be fine.

**Dr Getter:** I need a card, a name, whatever, a post office box.

I would like to be as brief as I can so you can ask the questions you really want answers to, but I would like to set the stage a little. I will very briefly go over our macro-outlook and then talk about what we think is going to happen in Ontario. Then we can open up to various policy

issues as you like, and both myself and Dr Peters will be happy to answer your questions.

In this morning's paper, in the report on Canada it says, "Pitfalls at every turn for politicians," because of the uncertain situation in the world today. There are pitfalls at every turn for economists who are trying to predict the future today. As we look at what is going on in the world, it changes moment by moment. I heard this morning that Iraq is bombing or blowing up some oilfields, so we know what that is going to do to the markets and to oil prices today. It is a little difficult to predict the future, so bear that in mind, too, but I will do the best I can.

The one thing I can talk about with some certainty is what happened in 1990, so let me do that very quickly. We know Canada has been in a recession since early 1990. We got into it in the second quarter and we have been in it ever since. Manufacturing actually went into decline before that, starting in 1989, as we know in Ontario certainly. The growth for the year in 1990 we estimate at 0.8%, less than 1%, which is the lowest since 1982, so there was still some positive growth, but it was very, very low. The weakness in the economy is very widespread. It is not just a single sector that is affected or one or two sectors. Every single sector in the economy was affected: housing, autos, investment, profits, merchandise trade, consumer expenditures, retail trade. Everybody got it.

In terms of industries, again it was very widespread. Industrial production in particular went down almost 4%, we estimate. Residential construction, manufacturing are very badly hit. The goods producing sector declined by 1.2%. The services industries were still growing at about 2%, but that is pretty sluggish.

The unemployment rate was up to 9.3% in December and in June it had been 7.5%. So the decline which started in the second quarter accelerated in the second half of the year. The unemployment numbers are really the best indicator of that, of how quickly that decline happened. The housing numbers also reflect that. Housing starts in particular we know are very bad. The numbers came out yesterday. We had estimated 182,000 and it ended up being 181,630. But that was significantly lower than 215,000 the year before. Bankruptcies in general across the country are running 40% to 50% above 1989 levels.

That is the bad news, and there is more to come, I am sorry to say. I think Mr Cross of Statistics Canada said he looked at all his numbers and said, "I can't find anything good to say," and that is kind of how I feel. There is really very little good to say.

**The Chair:** Unfortunately, we could not get Mr Cross to come here and give us his numbers and any projection of where he would go. We did invite him.

1010

**Dr Getter:** I am giving you his numbers. That is where I get mine.

**The Chair:** Statistics Canada?

**Dr Getter:** Phil Cross gathers the statistics, which are then available to everybody.

My next subheading says, "What will happen in 1991?" I am a lot less sure about that. First of all, there is the Gulf war; eight question marks follow that. The approach I would like to take, which is the only rational one to take, is that it is not going to be a catastrophic war where the entire world blows up. If it does, then there is nothing to talk about. I am assuming, but economists are allowed to assume. I am assuming the world is not going to blow up, and given that assumption—okay, we assume there will be some impact from the war. It is not going to be wonderful, and it might be protracted and there might be problems in terms of oil and inflation and so on. But I have to take the view that it is not going to be the worst of news and it is not going to be the best of news. The early euphoria is, I think, dissipated. I do not think this war is going to be over tomorrow.

But there is one thing I would like to point out. Maybe it is a bit of good news. I am trying desperately to find something good to say. The world right now is awash in oil. There are tons and tons and barrels and barrels of oil around, and one of the reasons the price of oil went below \$20 is precisely for that reason. People know that. I would say we certainly have about six months' worth of oil supplies, that we really do not have to panic. That is the good news. Oil prices, I would suspect, are going to climb today; I think they already started climbing last night. But I do not see them going up to \$40, \$50 or whatever, not in the short term, because in the short term there is enough strategic reserve to carry us through for at least six months. If the war is over by then, we will be all right.

Given that there is a war which is going to continue, say, for six months without major impact on oil prices, we expect the recession to continue through the first and second quarters of this year at least. Hopefully, if things go as well as they can possibly go, we will start coming out of it in the third quarter. We can talk about the risks to this forecast later.

I expect a decline in output in the economy of 1.2%. You have our forecast at the back of this Report on Ontario; on the back page you have our forecast for Canada as a whole and then for all the provinces. If you want to follow it there, that is fine. The reason there is a decline of 1.2% in 1991 is because we are starting the year off very badly, and even though we may start to recover in the third and fourth quarters it will not be enough to give us positive growth for the year. The effect of the recession is all going to show up in the numbers. If you look at annual numbers, it will show up in 1991.

Again, all our key indicators will decline. That you can follow more in detail in this booklet, so I will not go through it. But consumption, investment, housing, exports, profits—across-the-board declines in all of these variables.

The unemployment rate we expect will average 10% in 1991. It will go up to about 10.3%, 10.5%. We hope that will be as high as it will go nationwide in the second quarter, and then will start to decline. I am not going to go into great detail about how terrible every single variable will be. You can ask about it if you like.

There was a great deal of discussion last year about the effect of the GST. What I am seeing and what I saw before it was actually implemented is that the news is a lot better than we thought. Because the economy is so weak, the inflationary impact of the GST has been dampened, and we see that businesses are swallowing the GST. They are giving people rebates or they are just eating it, so prices are not going up as high as we would have expected. The government said 1.25%, 1.5% inflationary impact. I do not think that is going to happen.

The CPI just came out this morning, and I think it went down in December from November by .1%. It was 5% year over year in December and it was a decline month to month in December, which is quite unusual. I think that is good news. If we do not have an explosion of oil prices and the GST inflationary impact is not very strong, that is very good news, because I think many of us were very concerned that an economy that is already flat on its back gets hit by an inflationary hit, the Bank of Canada tightens up and the economy really cannot revive. In that sense that is good news.

We had expected inflation to be above 6%, and that is what you will find in our forecast here. We had expected it to be 6.3%. I think that is too high now; I believe it is going to be closer to 5% or 5.5%, less than 6% anyway. I think the initial resistance to the tax will eventually dissipate. I think within six months people will have adjusted to it. There are still some noises but in the end they will have to swallow it and they will get used to it.

I think the one factor that could still be affected by that would be the new housing, because the GST affects new houses and not resale houses. That is one sector that we expect will still be hit by that, because it is a significant chunk on every sale.

Some speculation about what is going to happen in terms of monetary policy by the federal government: We expect interest rates to continue to fall steadily, unless of course there is a real inflationary push from the war or other problems. The fear of the GST induced inflation was overstated, so I think that Mr Crow will continue to lower interest rates steadily. I think we have just revised our interest rate forecast and are expecting 10 to 20 basis points.

**Dr Peters:** I think it is 10 to 20 basis points a week on the bank rate, which would give you a prime rate reduction each month for maybe five or six months, with some stall in between maybe, but certainly a markedly lower rate of interest by midyear.

**Dr Getter:** We are looking at prime at 10.25% by midyear and 9.75% by the end. It is not a forecast of prime. Based on what the governor will do, we expect prime will be under 10% by the end of the year. The Canadian dollar continues to remain strong. It ought to be a lot



power, but it remains strong. Mr Crow has more room to manoeuvre because of low inflation, the high dollar and the very weak economy. He has more room to manoeuvre. He can lower interest rates and hopefully he will continue to do that. Everything is contingent on what is going to happen in the Middle East, but the Federal Reserve System has been easing, and as the Fed continues to ease that gives him more incentive and room to ease as well.

So we are looking at an easier monetary policy now. People wonder at what point the economy is going to start booming because we are lowering interest rates. You are not going to see the effect until there has been a sustained decline month after month. Then at some point, hopefully by the second half of the year, people will realize that maybe they can start spending again. But it is not going to happen right away. People have to see a sustained policy change, because he has been going in the opposite direction for so long.

In terms of fiscal policy, the federal government really has its hands tied. It has a huge deficit. It cannot spend, so it cannot stimulate the economy, which is what its mandate presumably is during a recession. It will have a larger than expected deficit because of the recession and higher than expected interest payments, because obviously its own forecasts for interest rates were too low. It is really stuck in terms of what it can do.

This is my own personal view. I think the GST revenues are going to exceed expectations and that is going to bail them out to some degree. That, I would like to stress, is my own hunch. I do not know that. There is no way to know that, and part of the problem with the GST is that nobody knows that, but my feeling is that revenues from the GST will probably be higher than they expected and that will be useful. There is an election year coming up and maybe they will somehow find some money, but overall I do not see the federal government being very expansionary in its fiscal policy.

1020

Very quickly, US and global developments: The US is in a recession and in a war. I would like to say that the problems in the banking system—and I am talking about the big banks; I am not talking about the savings and loans. The commercial banking systems in the States, as far as I am concerned, are far worse than we know them to be. I think that because of this war and this crisis it has all been shoved under the carpet, and when this crisis is over I think we will see the real disaster that is lying under there. So I think that their financial system is extremely vulnerable and fragile and we have not even begun to see how bad it is. The savings and loan problem is the tip of the iceberg. That is something to keep in mind.

**The Chair:** Could I just interject a question at that point? One of the major causes of the depression in 1929 was the beginning of the bank failures both in Europe and in the United States caused by the Treaty of Versailles and the amount of money that was being moved around. Is this really a hidden domino card? I mean, are we looking at a really major factor in the American economy if these savings and loans and banks start going under?

**Dr Getter:** I do not think it is going to be the same degree as it was, but I would like Dr Peters, perhaps, to address this question.

**Dr Peters:** The question in the United States is not a depression-causing type of banking change; it is very much of an institutional change going on in the banking system. Five years from now we may indeed look at the US financial system and find that the largest names in that financial system are not banks but rather are other concerns such as Sears, GE Capital, American Express and other items. So, there is a very great deal of institutional change going on in the US financial system.

The question about the banking system and failures there is very difficult to assess, I think there are serious problems and I really do not know if that is going to be a question that is going to cause any serious economic—it does not have to cause serious economic repercussions; it may cause serious fiscal repercussions for the US government because of its massive deposit insurance guarantees and because of the bail-outs. That has already happened at the savings and loans, and if there are major banking problems you may get other major fiscal problems because of those questions.

I do not think, though, that necessarily will translate into the kind of depression that you had in 1929-33. In that instance, it was the depression that caused the banking failures, not the other way around. It is very difficult to say; the reparations were part of the postwar problem, but that was not the banking failures related necessarily to that. It was the depression itself that caused the massive banking failures in the US.

So, in this case we have a very large financial problem, its impact on the real economy, on employment and output and that may be considerably less than and certainly not depression. That is certainly not my idea on the matter at all. Does that make it a little clearer? Have I answered your question at all or have I fudged it? Maybe I have not answered your question because really, maybe I do not know the answer.

**Mr Stockwell:** That happens around here a lot.

**Dr Peters:** I am willing to admit that I have not got the answers.

**Dr Getter:** I just would like to add something to that. I did a paper, of which perhaps I should have brought a copy—I will be happy to send you one—on debt conditions in Canada versus the US. We are in far better shape than the United States is. What is very interesting is that whenever you publish something that has any positive news, nobody pays any attention whatsoever. So, in this case we have a far stronger banking system, our big companies, our corporate balance sheets are in far better health, we do not have as much debt as the United States does, we did not have that whole leveraged buyout, highly leveraged transaction mania that went on down there. We are in much better shape that way, and we should not instantly assume that just because the United States' banking system is in trouble that we are instantly going to follow.

We have a very different structure, as you know, and Canadians should feel kind of good about their conservative



approach to things, because in this case it has served them much better than the American kind of free-for-all behaviour. I think we are going to ride out this recession in pretty good shape.

Let me just finish this up. The big question is, when will the US pull out of this recession? Again, the Gulf war is a big question mark. Clearly, the sooner it pulls out of recession the better it is for us because we are so dependent on them for our exports. But again, that is a question I cannot answer, when exactly they will pull out of it.

I wanted to mention just very briefly—one can talk about this for ever, but very briefly—I think one should remember that there are global trends that have been developing over the last, I do not know, decade or two. I believe that we are going to end up with several large trading blocs. There is going to be the North American trading bloc, which is Canada, the United States and Mexico, the European trading bloc, which as we know is being formed as we speak, and then there is Japan and the Pacific Rim trading bloc, and then maybe one or two others eventually, maybe an east European trading bloc or maybe they will end up being part of the European bloc, I do not know.

I think that the days of looking just at our own sort of national welfare, hiding behind tariff walls, bilateral negotiations and so on are passé. I think anyone who is forward-looking has to realize that being terrified of jobs moving to Mexico is probably not where one should focus. There are all kinds of reasons why it is probably not going to happen anyway in large numbers, but one has to change the way one thinks because we are going to end up in one trading bloc. There is no question about it. It will be called the North American trading bloc. We are already so interlinked globally in every possible way. That is where the future is and that is where we are going. If we pretend that the world has not changed, we would be making a big mistake. I did not mean to lecture. It is just something that bugs me sometimes.

Let's turn to Ontario.

**The Chair:** That does not necessarily mean we entirely agree with everything she says.

**Dr Getter:** I do not expect you to. I am just giving you my point of view.

Okay. The slowdown in Ontario started sooner than it did elsewhere. It started in 1989. The decline continued into 1990. The recession has really hit us hard, a lot of layoffs and closures. They are not all related to the free trade agreement. People say why and I think the answer is actually quite self-evident. The harder you go, the harder you fall when the time comes. If you look at the chart, it tells the whole story right here. If you look at the black line, that is Ontario's growth. The other line is the rest of Canada. You see what has been going on through the entire period after the recession.

Ontario has been growing so much faster than the rest of the country. Its recovery started right away after the recession and it took a long time for the rest of the country to catch up. Eventually, when things had to slow down, which they did, Ontario had farther to fall. Everything in

the economy had been so overheated that when it came time to cool it down, it was really a quick cool-down period. A lot of it was a function of the overheated real estate market, high interest rates, oversupply, affordability problems and the fear of a downturn; all contributed to total collapse of the market.

We know that both residential and non-residential construction is down and office vacancy rates are climbing. I think the last number I got was like 15% to 20% in Toronto at this point, which is really very high.

The auto sector, which is a key industry here, as we know, has been quite weak for quite a long time. The high Canadian dollar has hurt our exports.

We have been hit in Ontario precisely because we are not such a diversified economy. We have been hit on all sides in our manufacturing, in our construction, in our exports everything. You name it and we got hit. We could talk about the other provinces later on. I am not going to talk about all of them. It is in here too.

### 1030

Now there is something that has happened, what I call the shake-out effect. I think Ontario's business sector in the last few years has gone through a major shake-out as a result of the free trade agreement, the recession and the GST. The bankruptcies between January and November 1990, which are the latest numbers I have, were running about 70% over a year ago. The interesting part is—and that was published by the government—that there were almost 32,000 layoffs in 1990, which is the highest number since 1982 and the larger proportion of layoffs is permanent layoffs and closures rather than temporary layoffs, which was the case in the last recession. That is really a major change. In 1990 about 50% were complete layoffs and in 1982 it was only 22%. So there has been a real switch there and it shows you that there is something structural going on.

What we are seeing essentially is that companies that cannot compete are not making it. I am going to try to say this in as positive a way as I can. I will read you what I wrote. I said here, "Although it is painful in human terms this does have a positive aspect. It is unfortunate, but it is true, because what is happening is that inefficient and unprofitable firms are forced to compete or else they have to bail out."

Now if it is the law of economics and the law of the jungle, I do not know, but companies that could not compete have fallen by the wayside. People get hurt by that but that is the way it works. When things are booming and everything is wonderful, you know, you can be a marginal producer and you can charge high prices and not be very efficient and you can still make a living. When things are bad, it is the ones who are really competitive who make it and that is what happened. That is exactly what has happened.

In a way, it is good for the Ontario economy, because after this recession you are going to be left with efficient and competitive producers. We have seen this happen in Canada before, in 1986 the oil price collapse in the west. Do you know that at that time I think you had to have a price of oil of \$30 or something in order to be profitable. The producers that are left in Alberta right now can be



quite profitable at \$15 a barrel and those are the only ones that are left. They bought each other out, or they went out of business, or they rationalized, or they became more efficient or they cut back their costs or whatever, but they can now make a living at \$15 a barrel. So it was a very difficult time for the west and it did have very high human costs, but it made for a much more efficient economy.

I think that Ontario is going through a rough time, but there is something that will be gained from this. I hope you understand that I do not think it is wonderful. I am just telling you what it means.

The outlook for Ontario: My feeling is that Ontario's economy is essentially very healthy. Ontario's economy is not an energy-intensive economy, it is not a fish-intensive economy, it is not a Japanese-investment-based economy. It is very diversified and I think it is essentially structurally very healthy. It is not suffering from any basic structural defects at all.

The underlying fundamentals in this province have not changed just because we have gone through a bad time. Our location—we are lucky—vis-à-vis the rest of Canada and the United States is that we have access to the largest markets. I think you are the one who likes to say that we are closer to—how do you say it about the market?

**Dr Peters:** We are closer to more larger American cities than any American city, in Toronto and this area, and we have within a 500- or 600-mile radius a phenomenally sized market that is easily accessible by rail, air or truck communication. That 500 miles will take you virtually from Boston to Washington to Chicago and that will include all the major cities in the northeastern United States. So Toronto and central southwestern Ontario are particularly well situated, better situated physically than almost any major American city that you would like to name.

**Dr Getter:** If what I said before will turn out to be right, that we are going to end up with a North American market, then we are in an ideal situation to take advantage of those markets. So we are very fortunate in that sense.

We have the majority of the population and production in this country, we have the most diversified economy, we have got everything. Our agriculture sector I believe is larger than any other provincial agriculture sector including Saskatchewan's, which sounds a little funny, but that is true. We have mining and we have manufacturing and we are the most diversified economy, which means essentially an environment that is a healthy one.

We have most of the corporate headquarters for domestic and foreign companies, we are the primary destination of foreign immigrants and will continue to be because we already have such a large immigrant population and they tend to come to their families and so on.

We have a very skilled labour force, we are the financial and commercial centre of the nation and we have had phenomenally strong investment during the 1980s. I think people tend to underestimate what has happened here in the 1980s and most of that went into modernizing plants and equipment. Our industrial base, or productive capacity is extremely modern and in very good shape compared to other provinces and states.

In the auto sector, we have also been extremely fortunate. The Big Three are hurting but the Japanese and the transplants are doing extremely well, thank you very much, and some of them are right here. We are benefiting from that, and if they continue to do well, it means employment for us and continued growth. We are very fortunate that we are not just dependent on the Big Three.

We expect the Ontario economy to begin to recover at the end of this year, the second half of this year, and in 1992 we expect growth of 3.2% which is quite respectable, and 4.4% in 1993. We expect to come out of this recession, as we did out of the last one, very quickly and quite strongly.

The unemployment rate, we expect to drop. It should be 8.9% this year, 7.3% in 1992 and around less than 6% in 1993.

We expect the housing market to continue to be weak this year. I think it is 58,000 units that we are forecasting. It will continue to be weak for the remainder of this year, there is no question about that, but will start to recover next year and the year after. The underlying demographics are changing but I do not see that there is going to be a total lack of demand for housing. I do not think that is true. There is still going to be an underlying demand. What we saw after the last recession is that there was a huge pent-up demand so we will see that cycle coming in again.

I would say that our longer-range or our medium-term forecast for Ontario is very positive. I do not see anything that is structurally wrong here and there is no reason why we should not do very well starting the end of this year if all goes well elsewhere.

Some of the issues that I thought need to be considered, I am just going to list them. This may sound clichéish but I think it is true, I think competitiveness is the key to Ontario's future economic health. The free trade agreement is entering its third year and more and more tariffs are being reduced. Canadian consumers, interestingly enough, precisely because of this recession, are becoming much more sophisticated and price conscious. They are no longer willing to pay prices they know to be higher than they should be. So they are going to demand competitive prices or they will shop elsewhere, and we know where.

Now, the tax structure in Ontario: Various studies have been done and people say, "Well, Ontario, there's too much taxes and so on." I believe that if you take in all the taxes, including the health care costs and so on, Ontario still has a competitive tax structure but I think we need to keep an eye on that. I know the gap between Quebec and Ontario has been narrowing, but between Ontario and the US I think we are still okay.

I think essentially that is all I wanted to present formally. Unless you have something to add, we can open it up to questions or whatever.

1040

**Mrs Sullivan:** I have a couple of questions, one relating to your estimates on the timing of the recovery. We were interested yesterday in hearing from the Ministry of Treasury and Economics that its view was that the recovery in Ontario following this recessionary period would be

slower than that which followed the 1982 period, and in fact slower than some of the other provinces, including the western provinces. Your view is that Ontario will lead the rest of the country during the recovery period. I would like your comments on that.

The second thing is that I was quite taken with your remarks about the difficulty in the federal government providing a stimulus to the economy. If you were planning public policy in Ontario and saw a need for stimulation of the economy, where would you put your dollars and how many dollars would you put in?

**Dr Getter:** Do you want to answer it or do you want me to? I can do the timing one; maybe you want to take care of the stimulus. We will split this one, all right?

In terms of the timing, I think you need to think about it in this way: The west has not gone into a recession in the same way Ontario has, so you do not have this drop. They are kind of bouncing along, maybe flattening out a bit. They have been going this way. Pardon me, but you can follow me, right? We have gone all the way down to negative. We are the only province that has negative growth rate in 1990. So we have gone all the way down, and then when we start to pick up we will be going this way. We are not going to continue down there.

The other province that has been sort of growing positively or flat will come up a little bit. They are not going to start booming because they are coming from a high base already. There is a lag. What has been going on here will eventually—it is already happening—affect the provinces in the west. Certainly the housing markets in the west are weakening. We know that in British Columbia the forestry sector is in terrible trouble. So in the same way that Ontario got hit sooner, their impact will hit later. That happened in the last recession as well. British Columbia did not come out of its recession until 1984.

As I mentioned before, Ontario is so diversified. It is not dependent on any one thing. As soon as consumer confidence recovers and as soon as hopefully—again, the big wild card here is the gulf war. Assuming that does not turn into a disaster and confidence comes back, Ontario will start to pick up all across the board. I see that they are going to start growing just as rapidly as they did before, maybe not by 7% or 8%, and I did not say 7% or 8%; I said 3% or 4%, which is not astronomically fast growth but it is faster than the rest of the country.

**Dr Peters:** If I might add to that, you are quite right that Ontario will not pull out of this recession as rapidly as it pulled out of the 1981-82 recession. If you look at this front chart, you will see that the growth rates in the two years after the recession in Ontario were 6% and over 8%. We are forecasting 3%, 3.2% and 4.4%, obviously much slower rates of growth than coming out of the 1982 recession, but then of course the 1981-82 recession was a deeper recession too. So that was one.

You were asking me where you would put the money and how much. It depends on how much money you have.

**Mrs Sullivan:** At least \$700 million.

**Dr Peters:** I think in a recessionary period there should be room for some discretionary spending on the

part of governments, particularly where there are particular things that might be built that would be very useful in the future. There was a time here when, for example, you would have surplus excess supplies of building material where contractors and such are not at full, where you might get better prices on buildings if you needed those particular things.

I think there may be some room for that in a recession although planning that sort of thing does take a long time in implementation. Usually the recognition problem is one that when you recognize you are in a recession, you plan a spending program and by the time you are spending the money, it is in a boom period again.

If you could, at this moment, build a building that was already planned and was on the drawing boards and ready to go, you might be able to get it built for less. I think that would be an advantage to Ontario, if they needed that project, schools, university buildings or things of that nature that would be needed in the future, and if you could get it done during a recessionary period, it would be an advantage.

How much? I do not think the Ontario government has a lot of room to move on that because I do not think you could set up a spending program quickly enough that you would be able to institute it before you were again moving out of a recession and into a boom period. You may indeed just exacerbate a boom instead of having it on a recession.

The old idea was that you would have projects on the drawing board so that you could, in a recessionary period, put those spending things forth, the things that were needed. I do not know whether there are things on the drawing board here, but if there are, I would suggest that the Ontario Legislature could indeed move those things forward to be put on the books now. I think there is some room for that. I would not like to give you a dollar amount, though.

**Mrs Sullivan:** If there is stimulating spending done, it should be done now rather than in May.

**Dr Peters:** Two or three years from now, when we are growing at 4% or 4.5% and booming.

**Mrs Sullivan:** But I am talking about within a very short period of time, in a fiscal year period. Now would be the time to put the money in rather than, say, March or April or May.

**Dr Peters:** As opposed to—

**Mrs Sullivan:** Of this year.

**Dr Peters:** I am not thinking of that short a period. I am thinking of the next six or eight months. This calendar year would be a better year to have spending actually occur, where the jobs are done, where the actual construction is done, where the roads are paved or what have you. Whatever it is, it would be this calendar year, if you could do it, rather than planning a project, having the architects draw the plans, setting it up and spending the money in 1994. That is always the problem with a major construction.

**Mr Sutherland:** I just want to ask, you do seem to be a little more optimistic than what some other groups have said about that. I wanted to maybe tie a couple of areas in,



one about interest rates. You said we have an easing of monetary policy and our interest rates are coming down. We certainly have been hearing that they are coming down, but there is the question of closing the gap between our interest rates and American interest rates, if we are going to have some, I guess, maybe true easing of monetary policy. I do not think I caught you touching on that.

**Dr Getter:** I alluded to it, but not directly.

**Mr Sutherland:** Okay. Whether you see the gap closing.

**Dr Getter:** This is one of Dr Peters's favourite topics, as you may know, so I will leave it to him.

**Dr Peters:** We have seen some narrowing in that gap in short-term interest rates from about 5.5 percentage points down to about 4.5 percentage points recently. I would suggest that we would see a narrowing of that gap throughout the year, but not down to zero, which would be, in my view, where it should be. In other words, the government of Canada should be borrowing on Treasury bill rates at about the same level as the US government on 90 days, unless you expect exchange rates to change. That would be a target.

The movement down in longer-term rates is a little more difficult. We usually have a difference between Canada and US long-term bond rates of about 90 to 100 basis points, one percentage point. That has been up over two percentage points recently. It is down a little bit from about 2.4 to about two percentage points. I am a little less sanguine about that falling back to one percentage point. There are some difficulties there.

I would think, though, that as our inflation rate becomes a little better, as we sort of get over this GST worry in the early part of this year, as Canada's inflation rate improves, the US inflation rate, if not running at much different than ours, will be lower than ours for the next while because of the GST. So Canada gets back to a lower inflation rate. I would think that even that long-term bond rate would narrow a little bit, maybe not down to 1%, but maybe down to 1.5% or 1.75% or something like that.

1050

**Mr Sutherland:** If I may, one other question: You also mentioned when you were talking about the layoffs how a larger proportion of them were permanent closings than in the 1982 one. You are forecasting that we are not going to go as quickly as that, but I am still wondering, with all those closings, whether we are in as good a position as last time to have a complete recovery, obviously not as quick, but are we still in a position to have as good a recovery given the fact that the Ontario economy seems to be in at least a transition phase due to free trade and maybe some other things? Have we set the infrastructure and resources properly to take advantage of that? Taking that one step farther, do you have any recommendations as to how the government can help Ontario business take further advantage of research and development and things of that nature?

**Dr Getter:** I have been tracking layoffs, and actually I do not think we have seen the worst of it because many of the layoffs that were announced last year are not going to

take effect until early this year. So we are going to start seeing these numbers climbing a lot this year. We are not finished yet.

I am glad you asked the question because it is something I wanted to mention and I did not. There is one thing that is very different in this recession than the last one, in the manufacturing sector particularly, and that is what has been going on with inventories. When we went into the last recession, we had very high inventories. When we came out of that recession, we had a year and one half worth of inventories to sell off before we could start production.

If you have cars sitting in a huge lot and you have to sell all those thousands of cars, you are not going to open up your car production plants until you have sold them. What business has done this time, and this is a structural change, is it has kept inventory levels extremely low. You have heard of this just-in-time inventory. They literally have two hours worth of inventory or some such thing. The trucks are coming in and it goes right on the assembly line or whatever.

I believe that is going to make a big difference in the way the recovery takes place. The minute we get a feeling that consumer confidence is returning and business confidence is returning, plants are going to open up and you are going to get people back into employment much quicker than you did last time. I think that is the key.

One of the reasons we have had these closures and layoffs and employment has really dropped very quickly is because businesses are managing their people the same way they are managing their inventories. They are keeping their people inventory as low as possible. In the last recession, no one had an idea how bad things were going to get, so the last thing you did was to fire the employees who had worked for you for 40 years. This time you fired the guy who worked for you for 40 years and you certainly got rid of the guy who just got on three months ago.

Business has learned a very important lesson from the last recession and I think this is going to have a big impact on the way we come out of this one. We became leaner and meaner, I am sorry to say, but in a way that means that we are going to come out of this sort of running rather than sort of crawling. So I hope this answered part of your question.

**Mr Sutherland:** The other part was in terms of allowing us to recover. If things are leaner and meaner and that is good in terms of the quickness of recovery, there are still a lot of unemployed people out there. In terms of helping either current businesses expand and new businesses develop, from the public policy standpoint, maybe some suggestions as to what the government could be doing in research and development and other areas.

**Dr Peters:** Research and development are always a plus in an economy, but what we have done over the past little while is make a major investment in business machinery and equipment, and the business investment boom of the last little while left Ontario with very modern plant and that has—now that does not help the business

that goes under in the small area where there is little mobility.

I would have thought that one of the things the government might do is to help labour mobility through training programs, to improve the training programs, to improve the skills of the people who have been laid off so that they can move and are able to move into the newer jobs, where the jobs are, and to encourage that kind of a movement. That, I think, would be much more effective in the short term. Research and development, of course, has payoffs but only very long-term payoffs. I would not downgrade those, but I think in the short term labour mobility, labour training and skills development are some key items.

**Mr Christopherson:** Dr Getter, you mentioned that you are still confident that in the third quarter we will begin to pull out of the recession, albeit more slowly than out of the last recession in the early 1980s. Some people are less optimistic and are more pessimistic that indeed it will maintain a negative position all the way through the year, and that we will not really start to pull out until the first quarter of 1992. Two questions: One is, could you just briefly indicate why you are still confident that it is the third quarter when we are going to pull out. The other question would be, what indicators will you be looking at in the second and third quarters of this year to determine whether or not that outlook is still going to happen?

**Dr Getter:** First of all, I am always being lambasted because I am too pessimistic. The Ontario government has been giving me a very hard time because I came out with a negative number for 1990 and now presumably I am being lambasted for being too optimistic, so you cannot win around here.

**Mr Christopherson:** Certainly do not read lambasting into my question to be. It was the farthest thing from my mind.

**Dr Getter:** The other thing I would like to take exception to is that you said I am confident we are going to come out of it in the third quarter. I am not confident of anything. I do not know how tomorrow is going to be. I am sort of suspending my judgement about what is going to happen in the Middle East. As I said, the end of the world could come tomorrow.

But assuming that nothing too terrible happens, the reason I think we are going to come out of it in the third quarter and the reason I am more optimistic now than I was, say, a month ago is the GST impact. The GST impact is far less than everyone feared and I really believe that is going to make a big difference. Everyone worried that the GST would cause inflation to go up, that consumers would pull back, that the Bank of Canada would raise interest rates, that this would contract the economy some more and it would go into a spiral and then we would not get out of this.

I am saying that we were prepared for the worst. The recession is so bad that the GST is not having that kind of impact. Consumers are going to learn to handle it, and by the middle of this year the GST will be part of life, just like all other taxes are, and the inflationary impact will be gone, so we will not have the monetary policy response.

By the end of the second quarter, we will have been in a recession for five quarters. That is a long time. By the time consumers have had a chance to kind of stop being so afraid. It does not seem to me that things are going to continue to escalate in a negative direction; in other words the decline is not going to continue to accelerate.

We are not saying that we are dropping faster and faster. As a matter of fact, the housing numbers that came out yesterday were much higher than even the CMHC had expected, for the last quarter, the last three months of the year. I do not see anything other than the war, again, unforeseen things, to paint a doomsday scenario. I really think that after five quarters of recession, with inventories being down to about zero, with consumers sort of finally having faced reality and said, "Okay, no need to panic," we will start coming out of it. I really do believe that.

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**Dr Peters:** If I might add one further factor, the one further factor is the central bank. It seems to have recognized that there is a recession. I even heard one reporter say the governor mentioned the word "recession" just last Thursday, I think, for the first time, and the central bank has had some recognition—interest rates are falling. If you want to know what I am going to be looking at in June and July for a recovery, I am going to be looking at how low interest rates have dropped. If we have interest rates down substantially, clearly the mortgage rates are off substantially and that is going to be a plus for housing, that makes housing much more affordable, it makes consumer durables more affordable. That is going to be the one factor I look at.

**Mr Sutherland:** And the gap related to interest rates or no?

**Dr Getter:** It also depends on the dollar.

**Dr Peters:** The gap will tell us about the dollar. The Canadian dollar will also be a key factor.

**Dr Getter:** One of the things I do is look at numbers all the time. I have what I call my daily update sheet and I literally put in the numbers as they come in. The key thing I always look at is employment, because that is our earliest and most accurate indicator of what is going on. There is another indicator I love, which is the help wanted index, which also comes out very early, and it is a terrific leading indicator. You could see what was happening in this economy three months ahead by looking at the help wanted index. It tells you how many help wanted ads there are in newspapers. It was sliding down, and if you followed employment, it went right with it. That is one thing.

Manufacturing shipments, auto sales and housing are the key ones I tend to look at. Housing is going to recover more slowly, but I can see where auto sales would be one of the earlier ones to pick up, because I think consumers especially were very spooked by the GST; they did not know what to do. That will be one of the first ones to recover, and that is what I would keep my eye on.

But essentially I look at everything as it comes out, and usually you see a consistent story. When the signs turn either all negative or all positive, you know there is something going on.



**The Chair:** Given that our next presenter is here, I will allow two very quick questions, one from Mr Phillips and one from Mr Jamison.

**Mr Phillips:** Your judgement is that in the manufacturing sector there is a kind of sorting out going on. By the way, you are far more optimistic. I feel a lot better now than I did an hour ago.

**Dr Getter:** I may be totally wrong, you understand.

**Mr Phillips:** Some of us have the perception that there is a sorting out going on. Some, as you say, are going out of business, but others are moving out of the province and therefore when we tramp the accelerator in six months we may be tramping plants that are not located here. That would be my first part, whether that is an exaggerated thing or not.

The second one is that you mentioned you are not too concerned about debt. I gather you include government, personal and corporate debt. Is there any advice you have for us in terms of the Ontario deficit and debt, whether that is something we should be thinking about or whether in financial terms we should not worry too much about it?

The third one: The renowned Dr Peters often is quoted on the value of the Canadian dollar. What do you feel we should be thinking about as a realistic Canadian dollar vis-à-vis the US and, as we head towards that, what is the fallout? There are lots of benefits to a lower Canadian dollar in terms of exports-imports, but what are the fallouts we might see?

**Dr Getter:** I can answer the first two and you can answer the dollar.

In terms of the plants moving out, I have been following in the newspapers closures, day by day and month by month, and it is kind of depressing. I have tried to sort out the causes of why they close and where they are going, if they are going anywhere, and I would say it is exaggerated. There is this idea that there is a wholesale closing down of plants and they are all going down to the States and that is the end of it. I would say it is a very small proportion. Many of the plants that are closing are moving their operations elsewhere, either within Ontario or to another province; that happens in some cases. But many of them just close. They do not necessarily move to the States or anywhere else.

Most of them are not closures in general, they are mostly just—what do they call it?—reductions in workforce. They have these euphemisms for things like that. But I think there is in the press an exaggeration of the number of plants that are fleeing the province. I think there is more of what they call a rationalization going on. You could have, let's say, three companies producing the same thing and you now have two producing the same thing. Yes, there are some people who no longer have jobs, but the production is still taking place and the productive capacity is there.

The second question was debt. I would not say I am not worried about debt. What I said was that relative to what is going on in the United States, Canada is in much better shape. I do not know if we want to go into a long discussion about that.

**The Chair:** We really do not have that much time.

**Dr Peters:** One or two words, then, on that. As a banker, I would think you would always be worried about debt and always concerned about it. That will keep your banker much happier.

**Dr Getter:** Assuming they want to keep their banker happy. I think you had a question about the Canadian dollar and where it should be.

**Dr Peters:** The Canadian dollar I felt is too high. As Ruth said, it may not be the plant closures that matter; there have been maybe some missed opportunities because of the high Canadian dollar, and that has been a problem. I would think the Canadian dollar should be at 80 cents, 82 cents; anywhere around that level is a sustainable level. Most manufacturers, if you ask them, I think would agree that that is a reasonable level, that they can compete much more effectively in the United States market at that level than they can at the 86-cent, 87-cent level.

**Mr Jamison:** My question is about the effect on manufacturers of the high value of our dollar. I guess the question I could ask from that is what you see happening—obviously, you follow the lead of the Bank of Canada in many cases—with the Canadian dollar and its value on the international monetary market in the next year or so, taking into account that you have said very clearly that you expect recovery to begin after the second quarter. What do you see happening with the dollar and its value? I ask that question particularly because many of the small, medium and large manufacturers I have been talking with have expressed very clearly that the value of the dollar is crucial to their ability to do business offshore.

**Dr Peters:** I agree with you that that is a crucial number and that we have had a great deal of difficulty in some of our manufacturing industries in competing, with a dollar at 86 cents or 87 cents. If our forecast of interest rates is correct, that interest rates decline and that we get a narrowing spread between Canada and US rates, some easing in the Canadian dollar—we have already seen a little of that—you would see the Canadian dollar somewhat lower than it is by year-end. That is a forecast, and it is very difficult to put foreign exchange rates into a forecast. I am loathe to give you an exact number simply because the events in the war, Canada regarded as a safe haven if the war heats up, could move the Canadian dollar upwards very quickly, or a settlement could move it down. A lower price of oil—were regarded as a petrocurrency, so we could move.

Forecasting movements of the dollar in a fairly narrow range is very difficult. I would think we will probably get down by maybe two or three cents by year-end, but that is on a trend, and you can have those size of movements in a day. So I hasten to say please do not quote me. Forecasting foreign exchange rates is very difficult and fraught with danger and all sorts of possibilities. The tendency would be, in putting that forecast together, of interest rates and exchange rates narrowing, there would be a lower exchange rate. That is the trend.

**The Chair:** I would like to thank you for heeding our invitation and coming and speaking to us and taking time



out of your day. I think as a committee we have a better perspective on where this economy is going. Any other information you could pass along to this committee that would help us in our decision-making process would be greatly appreciated.

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#### REGIONAL MUNICIPALITY OF HAMILTON-WENTWORTH

**The Chair:** As we are running a little behind, I think we could move on to the next presentation. Mr Agostino, if you would like to begin.

**Mr Agostino:** First, I want to thank the committee for giving me the opportunity to be here today to present some points of view and some inputs as to possible initiatives in the upcoming provincial budget. I think this initiative by the province to hold these hearings is to be commended. It is an approach that we at the municipal level certainly appreciate, and we are hoping our input will have some role in the setting of the budget for Ontario for the upcoming year.

The focus of my presentation will be primarily in the area of financing of municipal government by the province and primarily as it relates to what I think is the area of biggest concern, the social services aspect and the spiralling costs of the municipalities of this province providing full services on a cost-sharing basis that we clearly feel is inadequate. The view I will talk about today is going to focus somewhat on Hamilton-Wentworth, which is the situation I am most familiar with, of course, as chairman of the health and social services committee. However, our views are not limited to Hamilton. I think the problem is province-wide. It is not unique. The percentage of increases in social services and welfare rates may vary from municipality to municipality, but clearly it is a problem right across Ontario.

I know this committee will give us a sympathetic ear, and with the former chairman of our committee, our MPP, David Christopherson, a former colleague on council, and others on this committee, we will hopefully get something through and get some input into the decision.

I want to give something of a statistical overview of our situation in Hamilton-Wentworth. I am basically here to ask that the province first consider providing emergency funding for the general welfare assistance deficit across our region and, I would assume, across Ontario; second, that the recommendations made by the Social Assistance Review Committee and the Provincial-Municipal Social Services Review Committee report following that of 100% funding by the provincial government for general welfare assistance and social services rates in Ontario be implemented as quickly as possible.

I realize that Premier Rae has said a number of times that this government does not deal in crisis management, does not deal in emergency type of management. However, I think we also have to understand that the municipalities across this province have very limited resources, very limited methods of collecting revenue, primarily the property tax base, which I think we all agree is a regressive, archaic and unfair way of collecting taxes, and it is putting

an unbelievable strain on our taxpayers, who are getting hit on all sides.

The province, of course, has many more resources. I think in tough economic times we need a large infusion of social services dollars. We need funding to be enhanced tremendously, particularly in the area of support and counselling for clients, and obviously to pay the rates that municipalities are mandated to do.

In 1990, Hamilton-Wentworth reached its highest total of general welfare assistance rates in its history. The highest before this was at the height of the recession in 1982, when it was 9,350. Unfortunately, in December of last year our rates hit 9,845, which is the highest this region has ever accumulated. This may seem small compared to Metropolitan Toronto, but obviously our population, our tax base and everything else is much smaller, and it is quite significant. It is a 63% increase from the previous year in our particular region. So we have exceeded our rate and I think this recession is only commencing.

We have increased staff by 17 people in our own department to try to deal with the case load, but we still have workers carrying cases of 130 to 140 and up, which makes it totally inadequate to address the problems the clients are facing. All we are doing is really processing cheques and ensuring people get their cheques on time. It does not allow for anything else. That is an unreasonable expectation.

In 1991, unfortunately the situation does not look any better. We are projecting approximately 11,000 cases per month in our region, which would mean an additional \$7 million of regional net dollars. This is, of course, only 20% of the total cost, but the additional \$7 million would be added to the approximately \$10 million the region now pays out of its tax base for general welfare assistance. It is almost 10% of our total budget, and it is just unmanageable.

These projections for this year of the \$17 million in my view may be conservative, based on the economic downturn. We could face a plant shutdown and we could face layoffs which would totally throw this figure right out the window. As it now stands, taxpayers in our region are going to face a 4% to 5% increase at the regional level solely due to the dollars our region must pay for welfare assistance.

A number of initiatives in my view should be taken by the province to address this. First, I think the two-tier system now in place must be looked at. Social services in Ontario are delivered under a two-tier system. The FBA and GWA acts must be combined and rewritten to recognize equality and equity for all clients. A single-tier system funded at the provincial level but administered at the municipal level would be preferred.

The rationale is as follows: Municipalities have direct political and financial accountability to the local community. We believe that we can recognize the local needs quickly and respond to emergency situations we have during this economic downturn. Many enhancements, especially in special assistance, have been driven over the years by municipal governments and we are really a catalyst for input into future planning at the local level. The province, of course, has greater access to financial resources to fund



these universal programs and can look at the broader needs of the population and co-ordinate with the municipalities.

Another issue that must be addressed in the budget is the cost-sharing, which I have briefly talked about. Municipalities are the managers of the current delivery system. The management process is impeded by limitations to the inadequate funding for administration costs and limitations to staff resources. To be responsive to clients, current staffing levels and cost-sharing must be reviewed. PMSSR must be addressed and must be done immediately.

Increasing case loads have placed programs, especially discretionary programs, at risk. The provincial government must take steps to ensure that programs such as employment services, special income and child care are not abandoned to keep costs down because of case load.

In our particular situation, the cost and the increases are due to three factors, primarily general economic downturn in our community. The number of residents, as I have said, is at a record level. We face a deficit of \$2.5 million in 1990 on top of what we had budgeted. That is all coming out of local tax dollars again. We had the Stelco strike—

**The Chair:** Could I interject with a question at this point? To what extent did your case loads decline after the 1981 recession? For example, you say you went to 9,845 cases. After the recovery began, did that decline significantly or did it remain significantly high?

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**Mr Agostino:** It declined over a period of time. We had projected for this year, for example, an average of cases of about 6,800. It went up to 9,000 and something. It had declined significantly. The community got back on its feet, people were working and it then started up again early last year, of course, and the trend just continued. To reflect that, also our case loads: When we hire people to reduce the case load, we normally go through a period of attrition and we do not simply keep people on when the numbers go down. People are hired on a contract basis so that we do not overstaff, but we want to keep a case load to about 100 cases per worker, which is absolutely impossible at this point.

The general economic downturn, of course, we are facing across Ontario. The changes in unemployment insurance legislation and the passage of Bill C-21, with longer qualifying periods, reduced weeks of benefits and expanded quit-fire disqualification periods, are resulting in additional residents requiring and being eligible for assistance. This change in the legislation will cost our municipality \$2.1 million for 1991.

The third aspect, which is one that is not as often recognized, is the whole issue of rationalization of UI payments with social assistance. We have a system with the Workers' Compensation Board that works quite well. While a client is waiting for assistance from WCB, the region pays full service rates to the client. Then once the client receives the money, the back pay from WCB, it deducts that amount from his cheque and forwards it to the municipality. This type of arrangement with UIC has not been able to happen. They do not want to deal with us on

this. They do not want to address this issue. They say it is too complicated, it is much too difficult. I realize the federal government finds things much more complicated than the rest of us, but unfortunately this is a serious issue.

Again, the impact of this change across Ontario is clearly in the hundreds of millions of dollars. This would be dollars that this province and our municipality could clearly save if UIC were to implement a system similar to what the Workers' Compensation Board has, where the back pay that is given to an individual is then deducted appropriately to compensate for the money he received through social services. A client does not receive any less money under this system and the municipality is reimbursed, of course, which allows a saving for the municipality and the province. This one particular change would save the province and simply the municipality of Hamilton-Wentworth in excess of \$1.9 million. We have had no success whatsoever, but it has added to our total cost.

Another issue that we feel must be addressed is the issue of special assistance. Currently, items for special assistance in the municipalities are cost-shared at 50-50 for welfare and low-income clients, while items with supplementary assistance are cost-shared at 80-20. Both programs burn the local taxpayer. The present structure also is discriminatory, as access differs from municipality to municipality. Therefore, in the municipality that is willing to carry out that program of special assistance, the people in that area, clients, will get this type of service. Areas that do not carry out these programs are left out. We believe that special assistance programs should be made mandatory across Ontario and should be, of course, funded fully by the provincial government, as they fit and qualify under what I think are provincial responsibilities.

Another area of concern is the funding for emergency shelter and assistance. I am just going through the highlights of the brief. You can read it, of course. I am not going to go in detail through the whole brief. The municipality welcomes the Ministry of Community and Social Services announcement of \$1 million to ease the pressure on food banks. However, given the present economic conditions these dollars are simply a drop in the bucket and do not in any way, shape or form adequately address the need. I will give you one small example.

There is a food bank in Hamilton that MPP Christopherson is aware of, which is Neighbour to Neighbour on the Mountain. In 1986, when this organization started, it used to deal with an average of 30 families per week. Today it deals with over 2,300 families per week. This is one small organization serving an area of the city that most people would think is a fairly well-off area. That is one of the many food banks we have in a crisis situation in the region. We need the financial assistance to deal with this. Many of the food banks are depending on day-to-day fundraising drives, food drives, and again in tough economic times people are going to cut back. If you used to give \$5 to an agency or five cans of food, you are now going to give one, simply because your own situation is much more difficult. So this I think is imperative, for the provincial government to address this more adequately in



the budget and to ensure that the food banks are funded adequately to deal with the current crisis that we are facing.

In 1981, the ministry replaced the emergency shelter assistance program with a community support day program. Hamilton-Wentworth will receive \$75,000 from this program in 1991. Under the new initiatives, our region expects to receive an additional \$40,000 from the ministry. However, the current requests from agencies in our community exceed \$360,000 for this need.

We are also hoping that this budget in the area of social services will recognize and address the various ministry responsibilities that go beyond social services. Social services over the years have evolved into a mixed bag of programs which have been conveniently placed within the municipal jurisdiction to local tax dollars' access; for example, the Ministry of Health. We feel that drugs, dental, eyeglasses and assistive devices are health issues and should be rightly funded by the Ministry of Health at 100%. Currently, over \$513,000, net, will be paid by our region for such services in 1991.

The second area: We are hoping for some co-ordination within the ministries of Colleges and Universities, Labour, Skills Development and Community and Social Services. The four ministries are all involved in training and education programs for social assistance recipients. There is a definite need for co-ordination within the provincial government and liaison with the federal government to allow easier access to streamlined programs at all levels.

The Ministry of Colleges and Universities should recognize the basic needs of students and not expect municipalities to top up inadequate student awards. In addition, this covenant should offer adequate training allowances through provincial programs which would encourage people to retrain themselves to meet the needs of a changing economy. An immediate step, in our view, would be to clarify eligibility criteria for persons in receipt of OSAP pending a long-term solution by the Ministry of Colleges and Universities assuming responsibility for the basic needs of students, including low-income individuals.

Another area of concern we are hoping, again, that the budget will address is services for seniors. Our seniors population continues to grow and is expected to continue to expand, as it does, right across this province.

Institutional and home support services are changing. Issues specific to Hamilton-Wentworth which must be addressed are of course indicative throughout the province.

First of all is the capital renovations program. The Ministry of Community and Social Services advised that no additional funds are available until 1994 for Hamilton-Wentworth to finish renovations to Macassa Lodge and Wentworth Lodge. We now have one renovated wing and one new wing in each facility and we cannot finish the rest of the building. We then have a double standard of care, a double standard of accommodation and services for clients in the same facility. We were given full assurances by the ministry over the past two years that these programs would be fully funded. We have budgeted our share of the 50% for this, however the program is on hold and in absolute jeopardy unless the Ministry of Community and Social

Services again addresses this issue and reinstates the funding to finish these projects.

The program's overall cost is \$35 million. Again, if it is a three- or four-year delay, you can see what will happen to that number. It will skyrocket and therefore it will make it difficult at that point for the municipality to be able to afford it, even if the province came through with the full amount of money. So we are hoping that this will be reinstated.

Level of care funding: A cap on municipal homes for the aged—in our situation again, Macassa Lodge—extended care per diems and funding restrictions for the charitable homes for the aged, including St Joseph's Villa, is threatening the number of extended-care-level beds available for the elderly in our community. Interim operating dollars for all approved extended care residences is needed until long-term-care reform is implemented and resolved across Ontario.

Another area I know that this government has spoken on and hopefully will address and will recognize the need for is in the area of emergency shelter funding and for victims of family violence. We have situations in Hamilton, as we do across Ontario, where many of our facilities for victims of family violence—women who have been abused, have had to leave their home situation—are overcrowded. I particularly visited one home about two months ago that was licensed for 19 and had 32 people. In this particular home there were mattresses on the floor, sleeping-bag type of facilities, services that obviously were needed. The organization does a tremendous job of filling that need, but the reality is that there are not enough beds.

Additional to that, what many of the agencies are saying is clear to us: "Look, the answer is not simply adding another 200 beds to the Hamilton-Wentworth region, because adding short-term, emergency beds for victims of family violence without the support services, the counselling, the availability of help for those individuals outside of simply providing a bed is only going to force the woman, the children to go back into a situation that they had escaped from in the first place and make, obviously, a situation much worse than it was when they left it."

They have now taken that bold step. You can imagine the courage and determination it takes for a woman, after years and years, finally to leave that abusive situation. Then she is told after three months: "There is nothing there for you in the community. There is very little in counselling. There is very little in support services." The choices you really have are few in between, and in most cases they end up going back to those abusive situations. So the issue of beds must be addressed clearly and co-ordinated with support services in the community.

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Right now in our community it takes three to six months to get women into counselling programs. That is inadequate. That is unacceptable. I think it is one of the worst tragedies our community can face when you have either to turn women away from shelters or to turn them back to that abusive situation after their stay at the shelter has expired. We are hoping that there is going to be some serious discussion on this and a large amount of dollars



what come to municipalities across Ontario to deal with emergency shelters and victims of family violence.

We have also identified another area of concern, particularly with young people living in the streets in Hamilton. An extensive community process has identified the need for a 24-hour drop-in youth clinic, transitional and permanent housing and residential treatment for substance abuse. A proposal for these services has come forward and the need for provincial funding in this is essential.

It is hard to believe that in a region of this size, our first 24-hour, hassle-free type of no-questions-asked drop-in centre for people to walk in off the street, stay as long as they like, literally with no rules—the hard-core individuals who do not fit into the rest of the shelters—first opened up about a month ago. It was primarily through regional funding. A request has been made by the province. My understanding is the province is looking very favourably to approving that, but that is only a short-term measure. The budget only covers three to four months. We need this year-round, particularly in the winter months, of course. These are much more serious problems.

**Day care in Hamilton-Wentworth:** The number of cost-shared—by the province—subsidized spaces for day care is frozen at 1442 for centre-based and 234 for private day care. Although meeting the present needs, more spaces will be required in 1991. Waiting lists do exist for private home day care, and providers are difficult to find due to low wage levels paid. In order to address needs like ours, the following province-wide initiatives can be considered.

**Increase funding to municipalities for the provision of licensed child care programs.** These programs serve a dual purpose. Children are cared for in a creative environment that respects and fosters their developmental needs. Parents are assured of quality, stable arrangements. Funds should be made available to support municipal efforts in the expansion of licensed child care programs.

**I ask the province to look at expanded provision of in-school child care programs in co-operation with the Ministry of Education.** We are also asking to extend the payment of child care and transportation costs to those participating in academic upgrading or training/employment-related activities.

**Mr Chairman,** as I stated earlier, our situation in Hamilton-Wentworth is not unique. It is common across Ontario. We face the third-highest level of general welfare assistance rates in the province. As chairman of the health and social services committee, I am literally having to stand up every two or three weeks at regional council and defend expenditures over our budget, defend deficits that we as a committee and as a council are facing. The problem here is not the victim, of course. The problem is not the individual receiving assistance. The vast majority of recipients are people who are in situations beyond their control. They are in situations that they are forced into. If they had a choice, again the vast majority would rather not be in that situation where they are relying on welfare and social services.

People are hurting in our community and we are not going to turn our backs on them. However, the region cannot afford to pay what has clearly been recognized as a

provincial responsibility. I think all parties in the House praised the recommendations of the Social Assistance Review Committee report, and then the follow-up Provincial-Municipal Social Services Review Committee report, including 100% funding of general welfare assistance programs in the municipalities. This was recognized, in our view, as the most imperative and the most important change the province can make to municipal funding in Ontario in the upcoming budget.

I urge this committee to consider, as I stated earlier, that emergency financial assistance to municipalities be given in 1991 to cover the increases above the 1990 rates—in our particular case, this would be \$7 million, which is almost a 70% increase—and second, the implementation of the recommendations of 100% funding of course for GWA.

If action does not occur very soon, we believe many municipalities, including ours, are going to face financial disaster. We are going to have to make decisions. This program is mandatory. We are going to continue to provide it, but it will be at the expense of many other essential municipal programs—roads, sewers, transportation—which in my view are very important. However, we do not have the capability, and most municipalities in this province do not have the capability, to handle this continuous growth in what is clearly a provincial responsibility and a program that the province of Ontario should be paying at 100%.

I am urging this committee to recommend to the government that these issues be addressed, and addressed seriously, in the 1991 budget. I realize your situation is difficult. I realize cutbacks in the federal funding on the various programs are going to hurt the province of Ontario, and I think that is another fight for us to take to that level, but at the same time, the municipalities across Ontario need the help of this government, and need it now, or we are going to be facing financial ruin in the next year or two due to this particular problem.

**Mrs Sullivan:** I want to thank you for coming before the committee and putting a human face on change in the economic situation. You have emphasized the situation in Hamilton-Wentworth, and we have certainly heard reports from Metro Toronto that its case loads are increasing by about 80%. I am interested that yours are at about 66%. In my own region they are increasing about 69%.

You have addressed many of the areas relating to integrated delivery. In your view, is the move to the next phase of implementation of the SARC report the number one priority, or is emergency funding the number one priority?

**Mr Agostino:** Realizing the impact on the provincial budget and the provincial coffers that it will have, I believe that getting emergency funding to cover the situation in 1991 has to be a number one priority, but quickly followed by the implementation and maybe a staging of 100% funding of GWA programs. I realize it is a big-ticket item for the province of Ontario as well, and I realize, for example, if you implemented 100% funding, it would mean \$17 million for Hamilton-Wentworth in 1991. I am realistic enough to know that that probably will not happen, but I

believe that the other phase of the emergency funding would mean \$7 million for Hamilton-Wentworth.

We are reasonable. We understand that there is not an endless wealth and supply of money here in the province, but we are hoping that one step is immediate and the second one is phased in very quickly following that.

**Mr Sutherland:** My question deals with just an overall general view and outlook. You note in your first page about how communities are more accountable and able to quickly respond. It would seem to me there is a tendency that provincial programs, and maybe it is just a perception with provincial programs, are not as quick to respond. If you go to the 100% provincial funding on these areas, do you feel that there will be any losses to responding to local needs?

Is it possible you will get into a situation where overall in one year welfare cases are up 20% but maybe your specific area is up 50%, 55% and because it is provincially administered, your area may get left out in the cold, or another area may get left out in the cold? It just seems like a very delicate relationship between who is paying 100% funding and who has control of the decision-making of where those funds go. I was wondering if you could address that.

**Mr Agostino:** Certainly. The 100% funding, as I understand the recommendations that have come forward and the direction we would like to see it in, is of course that it be locally administered. It makes a great deal of sense. I believe it is much more efficient and we are able to respond. By "respond," I mean shift programs. For example, we had a huge increase in numbers so we had a youth team that we quickly disbanded. We had other special programs we quickly disbanded and put those case workers to simply the general welfare assistance cases. So those type of changes at the municipal level we are going to make very quickly.

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What we are hoping for is that there is a system in place in which we are going to be fully accountable, of course, about how we spend that money, but in which there are parameters set by the province for eligibility and those parameters are to be followed, but the municipality will ensure that everyone who is eligible receives the assistance and it will be funded provincially but administered locally within provincial guidelines.

Therefore, if there is an increase of 10%, your funding will increase by that much, and if there is an increase of 50%, then your funding will increase by 50% simply to reflect the community need, as long as a clearly understood set of criteria on that eligibility is relatively even across Ontario and a municipality is not paying much more liberal—a wrong choice of words—is not paying people much more than they should be getting, as an example, rates that are out of whack with the rest of Ontario. Those type of standards can be posted by the province but would be municipally administered, I think. It would have to be for it to work in a way that we would like to see it done at the municipal level.

**Mr Sutherland:** If I may, just one supplemental.

**The Chair:** It had better be short. We are running behind.

**Mr Sutherland:** Yes, I know we are running behind and my apologies. If that is the case, then really the difference, you are saying, from the current system is that the municipal employees who now administer the program would become provincial employees, or would they remain municipally employed but with the province picking up their costs?

**Mr Agostino:** Right now the cost-sharing for our staffing in administration is 50-50. For GWA rate, it is 80-20. Our view would be that the only change that would occur is that the cost, the 80-20 and the 50-50 share now would simply turn over as 100% share of the province which has been addressed and recognized through all the reports and studies that have been done. That is really the only change we would see, that the province would fully fund all costs relating to general welfare assistance at the municipal level.

**Mr Jamison:** That basically answers part of my question. My question evolves around the municipality handling the case load and so forth. What I have noticed is that there is quite a difference at this point in time between, for example, home visits that are required before any funds are made available. From one area to another there is as much as two weeks' difference in the waiting time. By saying that, I want to move on to the question on the 100% funding by the province. It has come to my attention, through talking to various people working at the municipal level, that it may be important to leave some funding, a portion, at the municipal level just to keep the system working on the basis of whether or not it actually ends up costing you anything or not. That way there is an assurance that the evaluation process will carry on in a proper manner. I just thought I would ask your opinion on that.

**Mr Agostino:** Certainly, sir. I do not think we at the municipal level are willing to work with the province to establish criteria, a set of standards, that are applicable and enforceable, but we would be open to any checks and balances in the system, as I think we addressed in here, to simply ensure that municipalities are not abusing the interpretation of the act and that they are following the guidelines that are in place. I think that makes a great deal of sense. It would force the municipalities in many ways to be a little more accountable, of course, because when it is 100% funded by the province, then I think we would be pleased to work with the province in setting up those guidelines and the criteria.

**Mr Christopherson:** I am cognizant of the time. I appreciate the opportunity to speak since our guest today is from my home community. I guess I would just open by saying, is this a great province or what, Dom? How the world changes in a short period of time. I would just like to, first of all, concur with most of the content in the issues outlined by Councillor Agostino. These are certainly a lot of the issues that I ran on in the election, issues that quite frankly we saw as not being addressed properly and adequately by the previous government, which are priorities on our agenda. Taking all of that in the context of the



recession and the financial situation we find ourselves in is not helpful for us, but I think you have reflected and commented on that.

Interjections.

**Mr Stockwell:** That stagecoach slowed down.

**Mr Christopherson:** This Hansard stuff is going to be fantastic for going back to for quotes. Mr Stockwell and I are going to have a wonderful time over the next four years firing back and forth on his desire to have it both ways, fiscally responsible and also pushing for all the social issues. However, that is not the issue at hand.

**Mr Stockwell:** Look who is calling the kettle black.

**Mr Christopherson:** I am always pleased to have my previous Liberal colleagues here before us. The only thing I would ask, Mr Chair, in a very serious vein, is that I did not see any reference here at all to the mandatory health programs which at the time that I left was a concern because of the lack of funding and where that put us over the three-year period. Is this meant to be just a perspective from social services or is this the priority of both those departments combined and, if so, did the mandatory programs not require the same kind of attention? I am just asking that.

**Mr Agostino:** Primarily, and from the perspective as chairman of the committee, we have some concerns, of course, about the mandatory health programs and the fact that we have submitted a number of programs. We were willing to kick in immediately and fund our aspect of it. This perspective here today is primarily from the social service point of view—and again, if you gave me a choice and said which one is more immediately important, we believe that this is simply because of the short-term, immediate tax dollars and affordability for our residents in our community to pay for social services.

**Mr Christopherson:** One quick question, if I can, Mr Chair. I know I am pushing your indulgence. The priority here and the priority you have mentioned today is that the council's position, out of all the issues that they face, is that SARC—I think it was SARC that you mentioned—is the number one funding issue aside from the question of emergency funding.

**Mr Agostino:** Right. I am not going to speak for the rest of the committees, of course, but this is clearly the number one funding issue from the aspect of social services and health care in Hamilton-Wentworth. I think there are very few programs that would have this type of impact that we would expect to get immediate funding to any great extent. This, in my view, would be the biggest single-ticket item that would clearly enhance the tax situation in support of the taxpayers in Hamilton-Wentworth.

**Mr Christopherson:** Okay. I just needed to be clear on that because it is important for me as a representative here. Are you saying this is just the social services committee point of view, or is this regional council saying that out of the environment, transportation, health and social services, all the other needs, this is the number one priority?

**Mr Agostino:** These initiatives are primarily social orders approved by council, the directions that are in here,

but primarily are social service priorities. I cannot speak for all of them. I am not regional chairman. I cannot speak for all of the region, but I believe that clearly this type of action would enhance all the region. What it would do at our own level is allow the freeing up of a lot of money that we could use for other programs in environment and the other services we do provide.

**Mr Christopherson:** I will just close by saying, in all seriousness, that I appreciate Councillor Agostino and members of the council taking the time to come down. I think this is the kind of grass-roots input that we are looking for, and it is appreciated. Thanks.

**The Chair:** In the interest of supplying Mr Christopherson with quotes, Mr Stockwell can have the—

**Mr Stockwell:** The question is asked.

**The Chair:** The question is asked? Thank you for coming, Mr Agostino. I think your briefing was very well done.

**Mr Agostino:** Thank you very much. We thank the committee for their time. I tried very hard not to be political and to be as fair as possible. Not once did I even raise the expressway this morning.

**Mr Stockwell:** Were you at that meeting, by the way?

**Mr Agostino:** No, I did not get invited.

**Mr Stockwell:** Send that guy up here.

**Mr Agostino:** I am on the other side. I do not get invited to those.

**Mr Stockwell:** I wish they would send that guy up here. I have got questions for him.

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#### METRO TENANTS LEGAL SERVICES

**The Chair:** We now move to our next presentation. It is the Metro Tenants Legal Services, with Leslie Robinson. You supplied the brief?

**Ms Robinson:** I did.

**The Chair:** I would like to applaud the effort of having it on both sides.

**Ms Robinson:** Thank you very much. About half an hour ago I thought I would rather double-side it than staple it.

I am here representing Metro Tenants Legal Services, which is one of the legal aid clinics that is funded by the Ontario legal aid plan in the province of Ontario. We are set up to represent and advocate for tenants in Metro Toronto, specifically low-income tenants. Legal aid sets low-income criteria and the tenants we represent must live under those income criteria.

Before I go into my prepared presentation, I want to provide you with a piece of information that I am not sure everyone here is aware of. I do not know if you know that Canada is a signatory to the United Nations Covenant on Economic, Cultural and Social Rights. Through our signature to that covenant, Canada has agreed with other countries in the United Nations who signed the covenant that we feel that housing is a human right, that basic, decent, affordable and quality housing is a basic human right.

In fact we have an international legal obligation to report every five years to that international committee on

economic, cultural and social rights on how we are doing in ensuring that all Canadians have adequate housing.

Before Canada signed the covenant, every province and every territory in Canada agreed to this covenant. So, while the right to housing is not entrenched in the Charter of Rights and Freedoms and the right to housing is not entrenched in the Human Rights Code, I think it is imperative for this committee, for this Legislature, the government and the people of Ontario to operate under the assumption that housing is a right, that we cannot go forward with any other perspective or any other point of view, except to say in Ontario all people have a right to a roof over their head at a price they can afford and a place that is decent and has decent facilities. It is from that premise that I wish to make my presentation this morning.

Metro Tenants Legal Services has been in existence since 1974. We have been representing tenants in the courts and tribunals since then, and primarily we represent groups of tenants. The issues that we address tend to cover a range of rent increases, repairs and maintenance, safety and security, preservation of buildings from demolition or conversion and security of tenure. In the past few years we have noticed that more and more tenants are living in buildings that are not zoned for housing, so that creates special legal tangles. They are also living in buildings where a mortgagee has foreclosed and the mortgagee is demanding vacant possession, although there is legislation working its way through the processes to address that specific concern.

But over the years we have been winning some battles and losing some battles, and measuring our gains and losses by the legal battles that we win and lose. In 1988 our board of directors spent a weekend evaluating the work that we have been doing with our staff, and we concluded that while we have been winning a lot of legal cases and doing the best we can in the courts and the tribunals, in 1988—and the same is true today—our client group, low-income tenants in Toronto, had worse housing conditions than they had in 1974 when we started.

So our board said that if we are going to really serve the needs and the interests of our clients, we have to step back a little bit from the individual battles and the individual cases and focus more on the supply of housing. While we still do the rent review cases and we still represent tenants with repair concerns and we still advocate for tenants, we have also over the past three years tried to participate in the arena of housing supply. We have participated with different housing co-ops and non-profit providers and we have been taking a look at municipal bylaws and building standards and those kinds of issues.

While we have been looking at housing supply matters, it did not take us very long to conclude two things about Toronto's housing market: There is not enough affordable housing, and our client base is discriminated against when attempting to access housing that is affordable to them. Such discrimination takes the form of income criteria, credit criteria, adults-only buildings, blatant racism, and a host of other bigotries that come into operation when landlords are faced with choosing among applicants for the

lucky ones who will have the privilege of living in the rental units being applied for.

You can just imagine the housing situation we have had over the past few years with a landlord considering 10 20 or 100 applicants for one unit. Sooner or later the criteria start being, "You've got to be white," "You've got to be employed," "You've got to not have any children," and "You'd better have a good credit history and a good reference from your previous landlord."

We are asking today that your committee take into consideration both our observations when you are developing recommendations for your 1991 budget. The first is new housing supply. Ontario's budget must address the concern of the basic shortage of housing which is affordable for those in need of housing. This is the shortage that exists in Toronto and in many other municipalities throughout Ontario. I think Sudbury has surpassed Toronto for the lowest vacancy rate in Ontario. There are some municipalities—Halifax comes to mind—where there is a large vacancy rate, there is not an absolute need for more housing. But in most of Ontario there is an absolute need for more housing.

But the housing need is not the need for purchase homes, luxury condominiums or apartments that rent at \$1,000 or \$1,500 a month. The need is for low-cost housing, housing that can be afforded by the people who are without housing and that is either housing with low rents or housing that is rent geared to the income of the tenants living there.

The criteria that our clinic set for new housing or the definition of affordable housing is that it must remain affordable over time, that large rent increases just force the tenants who move in to move out again. It must be close to transit, schools, health care, shopping and other services that form the necessities to a community. It is also important that the management of the housing provide opportunities for the residents to participate in decision-making and to present their needs and priorities when management decisions are being made.

We are in a time when most tenants in Ontario, and I would say almost all the tenants that we serve, realize that they will be tenants throughout their lives. This is not a short-term place where they are living before they can buy a house and decide when the lawn will be cut and what colour the trim will be painted. A lot of us will be tenants for all our lives.

It is important that we recognize that and give people who live in rental accommodation opportunities to have some control over our housing situation and the normal control that people expect, particularly when they buy their own home, that they are going to be able to set some priorities and decide whether they are going to invest in an air-conditioning system or that maybe this is the year to fix the leak in the roof.

Our experience of government assistance in providing supply of housing has been that the non-profit housing sector does come closest to providing the housing needed by our client community. None of the programs providing money or benefits to private sector providers has met the above criteria. I recall the Ontario rental construction loan program provincially. There have been the limited-dividend



program and the multiple-unit residential buildings program, and those programs do not have any assurances that the rental housing that is constructed is either in a location where people need housing or at a rent that they can afford.

The limited-dividend federal program is the only exception to that and what we find in those buildings, which are now reaching about 15 to 25 years of age, is that corners were cut and the buildings are falling apart and people are living in substandard housing. As well, when the agreements expire, the rents are going up anywhere from 10% to 48% and that is in Toronto.

We ask you to draw from our experience and, in meeting your obligation to provide housing to the people of Ontario, to take a look at the non-profit programs. While the non-profit programs, as I said, come closest to providing the housing needed by our client community, they are not perfect and there have been some problems raised. So we also ask that this committee make antidiscrimination policies mandatory for the receipt of funding for non-profit housing projects. Affirmative action policies for those who are most excluded are also necessary in order to address the unmet housing needs of people who do not measure up against the usual criteria that I listed before: You have to be white, middle class, employed and have a clean record.

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The province's housing programs have to address the reality that everyone has to live somewhere. People are evicted for disturbing their neighbours. What we are dealing with now across the province, but in Metropolitan Toronto, is an effort to get all drug dealers out of housing and that is good and that protects the people who live in those communities, but we still have to address the fact that everyone has to live somewhere. Housing has to be designed that is appropriate for the needs of absolutely everybody, because we are not meeting our obligation to provide housing as a right as long as there are people living on the streets, in hostels and living in substandard conditions or illegally doubled up.

So we ask you to address the concerns that we have presented and to make demands upon the non-profit suppliers. There was a recent Ontario human rights complaint by a woman named Heather Sinclair against Peel non-profit homes because she was discriminated against based on her income. They told her that her income was not sufficient, that the rent was 30% or 35% of it and she could not move in.

Instead of moving into Peel non-profit, she moved into a basement apartment which she shared with another woman and child. She paid 60% of her income on rent and she did not miss a rent payment. She settled with Peel non-profit homes. They have altered their requirements considerably. I think there is generally good faith in the non-profit sector to take a look at these issues, but we hope that through the funding and financing budget process these kinds of issues can be addressed.

In closing, I would like to reiterate what I said in opening, that this committee and this province must address housing policies and housing supply programs with the view that housing is a right. Programs must be developed

to meet the housing needs of everyone who calls Ontario home.

**Mr Stockwell:** I assume your association receives provincial funding.

**Ms Robinson:** Yes.

**Mr Stockwell:** How much money do you receive from the province?

**Ms Robinson:** I think our organization receives about \$400,000, but I could be off.

**Mr Stockwell:** From the province.

**Ms Robinson:** From the Ontario legal aid plan, which is funded ultimately by the province and also lawyers' trust funds. The interest that is gathered in lawyers' trust funds also goes into the legal aid plan.

**Mr Stockwell:** What about Bill 4's effect on your association? Will it cause you to have less work, more work?

**Ms Robinson:** If it gets passed, we will be able to drop a number of legal cases that we are working on. We have looked at it and decided that we will need to refocus our energies into assisting tenants with repair problems and to focus on the proposal that there be more permanent rent control legislation after Bill 4.

**Mr Stockwell:** In fact the work will lower in one area, but you will increase your efforts elsewhere.

**Ms Robinson:** I did not address today the budget needs for legal aid clinics.

**Mr Stockwell:** No. I was just curious; with respect to discrimination, I heard you mention the fact that through the process it is discriminatory to discriminate against people for certain reasons and one of those reasons was that they had a bad credit rating. Is it against the law to discriminate or not give someone an apartment because they have a bad—

**Ms Robinson:** Oh no, it is not against the law. Many of those reasons I listed are perfectly legal.

**Mr Stockwell:** Do you consider it discriminatory if someone has a bad credit rating not to rent that person an apartment?

**Ms Robinson:** Yes, I do.

**Mr Stockwell:** On what basis?

**Ms Robinson:** On the basis that everyone has to have housing. Even people with bad credit records have to have housing.

**Mr Stockwell:** I see. Interesting.

**Ms Robinson:** You have to live somewhere.

**Mr B. Ward:** Is it possible that you could elaborate on your comment that in your opinion the private sector does not provide the adequate housing supply that is needed for rent-geared-to-income or affordable housing even though there has been an opportunity, perhaps, in the past for a provincial or federal grant system? Even with the grant system, the private sector did not appropriately react to the housing need. Could you elaborate on that? Is that possible?

**Ms Robinson:** We have not had a housing supply program for the private sector that is federal or provincial

since about 1987, but they seem to come in waves. Sooner or later someone will have the idea, "Oh, let's just give either low interest rates on mortgages, loans, forgivable loans, interest-free loans, or whatever, to the private sector and get them to build housing."

In 1981 the Ontario rental construction loan program was introduced. It created housing but not in Metro Toronto. The most housing built under that program was built in a city that had the highest vacancy rate already and that was London, Ontario. But that was 1981. So they were not targeted. Basically the money was in a pot and developers were told, "Come and get some money and build some housing," but there was no targeting to need. Second, there is no control over rents.

I am working right now with a group of tenants who live up at Kipling and Steeles in the north end of Etobicoke, not terribly low-income people, working-class people, but they are mostly families living in two- and three-bedroom apartments that are over \$1,000 a month. One of the biggest reasons they have had a rent increase is that 15 years ago their landlord got a loan that was interest-free for 15 years. Last year the interest got added on and it hit the tenants in the form of one great big, whopping rent increase.

People are moving out and the other phenomenon we see is that people are doubling up. There are two and three families living in every apartment. That is an atrocious situation. Those people are living in fear that they will be evicted. The services are not capable of meeting their needs and a lot of those people would not even put their names on the voters' list because their landlord had access to the voters' list and then the landlord would find out that these extra people were living there.

There are a lot of shadow people living in Metro Toronto. Metropolitan Toronto Housing Authority estimates that there are 13,000 families living doubled up just in the housing authority stock.

**Mr B. Ward:** In your opinion, if the provincial government was looking at funding affordable housing, your recommendation would be, rather than utilizing that funding as a grant system to the private sector, that the money be plowed directly by the provincial government into affordable housing to be constructed or developed by the province.

**Ms Robinson:** Yes, it is our opinion and experience that that is the kind of housing that our clients' funds—accessible and affordable and decent housing.

**Mr Sutherland:** Actually, if I could just follow up on one question by Mr Ward: by the province or from community groups willing to, I guess, maybe make the difference? The provincial government doing it or the provincial government supplying the funds for different individual community groups to do it?

**Ms Robinson:** I think you could look at both or either. There is a lot of debate as to whether it is government's role to directly provide housing or provide it to community groups. There are a lot of community groups providing some very good housing, and in part our experience has

been that the smaller the bureaucracy the more directly addresses people's needs.

On the other hand, I do not think that problems that exist in Ontario Housing Corp housing or housing authority housing are necessarily because the province owns the housing. I think a lot of those problems relate to the fact that the buildings have some of the highest densities in some of the worst neighbourhoods with the least facilities known, and then you cram in a whole lot of people who have a lot of needs and do not give them anything and you are going to have a problem community. It is not because the province owns the building, it is not because they are poor, it is just because of a host of those kinds of situations.

**Mr Sutherland:** If I may, the question I wanted to ask was the concern that seemed to come up about—I am not sure if integrated housing is the right way of saying it—but strictly low-income housing units versus mixed incomes with low income. Would you care to comment on that issue?

**Ms Robinson:** Yes. It is a hot issue federally these days. We hear opinions from tenants on both. We hear tenants who say, "We do not want to be ghettoized, we do not want to be put into a community that is labelled low income, therefore when we tell anyone our address they know exactly who we are and they put a label on us."

We have also heard from people who say: "I got to where I am today organizing my tenants' association because I am among my peers. I live with poor people, I am organizing poor people, I don't have to sort of compete against people that have skills for leadership in my organization. I don't have to deal with my kids coming home and saying, 'Why can't I have a 10-speed? The boy across the hall has a 10-speed.'"

We hear both and we hope that programs would be flexible so that they could construct housing that is either all for low-income people or for a mix of income. We certainly hope there will be lots of units created for low-income people, rent geared to income. We have thought that a 50-50 split is probably appropriate, but any smaller percentage of rent geared to income than that starts creating problems because there is not enough built for poor people.

**Mrs Sullivan:** I was going to ask the very question Mr Sutherland has just asked relating to the integrated complexes. I would like your comments on two things that kind of follow from that. One relates to the requirement that the municipalities provide a certain percentage of affordable housing as part of their planning mix and the second relates to the time factors relating to the development in moving through the planning process itself.

**Ms Robinson:** On the first, as you know, under the Planning Act the Minister of Housing a couple of years ago created a housing supply policy that said that municipalities had to ensure that 25% of the new housing that is developed is affordable. Our concern about that is that it is not being monitored and that nobody has any idea which municipalities are and which municipalities are not meeting those criteria.



**Mrs Sullivan:** I am not sure of that. I think that is not right.

**Ms Robinson:** That is what we are told from the developers of non-profit housing, because we in the non-profit sector have been trying to do the monitoring ourselves, given that we cannot seem to get the answers from the ministries of Municipal Affairs or Housing.

It seems to be a good policy and heading in a good direction. What people do not tend to want is the municipality to say: "Okay, 25% has to be for poor people. There is this piece of land over here by the expressway and the other one by the garbage incinerator that no one is going to build on anyway, so let's put a whole bunch of low-income housing there and then we have met our criteria."

**Mrs Sullivan:** Have you seen that happen?

**Ms Robinson:** I see that in the existing housing. If you drive up and down Highway 427, a lot of the high-rises near Burnamthorpe Road are all either limited dividend or Metro Toronto housing, a lot of the buildings that are on the Don Valley Expressway, over at Oak Street on the edge of Regent Park.

**Mrs Sullivan:** Certainly that is not the case in my community.

**Mr Stockwell:** That is not true.

**Mrs Sullivan:** But I am wondering if it is the case elsewhere.

**Mr B. Ward:** That is your opinion.

**Ms Robinson:** That is my opinion. That is my experience in the buildings I have gone into. Maybe a lot of the buildings are not.

**Mr Stockwell:** There are all kinds that are not.

**Ms Robinson:** Okay, fair enough. It is our experience that a lot of buildings for poor people are either in neighbourhoods that are not yet developed and do not have transportation and services, or on lots of land that are less desirable. That makes a lot of sense because it is harder to market that land.

**Mrs Sullivan:** And then the planning process itself, I do not know if you want to throw in a comment about the maximum unit prices or not, but I think that would be useful.

**Ms Robinson:** Yes, I must say it is not something I am totally familiar with. The maximum unit prices I think have to have some more flexibility so that they reflect the reality of land costs and other costs in Metro. I think, as well, particularly with the introduction of Bill 4 and rent controls, that the province needs a program to convert private sector buildings into non-profit housing where there is an opportunity, where there is either a threat to affordability or a landlord saying, "I'm going to walk away from this building." But we have to be prepared to then say, "Okay, that housing is prime housing to be converted into non-profit housing."

**Mrs Sullivan:** With the province's participation, ie, purchase of the building?

**Ms Robinson:** What the province has now under the non-profit program, under the existing Homes Now program, is a portion of the units or allocation set aside for conversion of existing buildings rather than construction of new buildings, because a lot of the problem is just finding vacant land.

**The Chair:** Thank you for coming. I think you have given us some food for thought. We will reconvene at 2 pm.

The committee recessed at 1215.

## AFTERNOON SITTING

The committee resumed at 1404 in room 228.

ONTARIO ASSOCIATION OF INTERVAL  
AND TRANSITION HOUSES

**The Chair:** I see a quorum. Before us we have the Ontario Association of Interval and Transition Houses, with Eileen Morrow, Trudy Don—Trudy is not coming today? Okay—and Lisa Duggan. You will present your brief and then, if we have questions, we will move on from there. You have roughly half an hour.

**Ms Duggan:** We did not prepare a written brief of what we are talking about today, so we ask that you listen. What you do have in front of you are several things we will be referring to in our statements. What we want to start with is to give a little bit of history in terms of funding of shelters in Ontario and what we would like you to consider in terms of the direction for funding for shelters in Ontario.

We would like to start by talking about a standing committee on social development that was put together in 1982, and it was a three-party committee that looked at the issue of wife battering in this province. One of the recommendations that came out of that standing committee, which was unanimously supported by all three parties, was recommendation 23, which is on page 57 of that report, and this is the report.

It says, "The Ministry of Community and Social Services should fund shelter services beyond room and board on a block funding basis." However, these recommendations were not implemented and funded and as a result shelters fell into severe financial crisis and were in danger of closing, so in 1985 there was implementation of the bailout and stabilization funding, which led to the initiation of a review of shelter funding by Brian Low, which is referred to as the Brian Low report. When the provincial funding review was completed in 1986, the recommendation was recognition for funding of expanded shelter services. The draft recognized block funding, but it was dropped from the final report in favour of improvements to the per diem funding and deficit funding.

OAITH opposed the lack of block funding that did not occur in the final draft of that. That model was opposed because block funding was not included in the final report. The more positive recommendations of this report were not funded or implemented.

**Ms Morrow:** I am going to go on from there to talk a little bit about what happened next in the trend after the provincial review of the shelter services which was designed to stabilize the funding and secure funding for shelters so that they would not close. Review and consultation was taken within the Brian Low report and responses were gathered. The result did not come about until 1988 when the Ministry of Community and Social Services presented a funding formula which was designed to alleviate the problems in transition houses for abused women. This was announced in February and was to be implemented on 1

April, so that shelters in the province of Ontario were given one month to respond to the proposed funding formula and to give their comments back.

There was a groundswell of opposition to the short length of time that was given for response to the report. As a result of the opposition to this plan, there was a prolonged consultation period undertaken which resulted in negotiation across the province of Ontario with shelters in OAITH and regional groups of shelters in OAITH, with both the corporate branch of MCSS and the program supervisors in the local regions of MCSS. Within this negotiation, what happened was that MCSS requested that the shelter network, if it was in opposition to the new funding formula, the result of Brian Low's work in effect but without incorporating his recommendations—their suggestion that we provide an alternative funding formula which was done and was approved by the membership of OAITH after much consultation among us.

What happened after that was that a group of people from OAITH and from the MCSS civil servant group began to negotiate around the alternative funding formula and the original funding formula. The end result of that made absolutely no difference in terms of the plans for funding of shelters. What did happen, however, was that MCSS promised to incorporate some of OAITH's definitions of what the shelter network was in fact providing already in the province of Ontario, and to recognize the services that were being provided in the shelters but not funded by public policy or by public money.

The result of that was Alternate Vision of the Provincial Funding Formula for Interval and Transition Houses/FRCs, which is the first thing you have before you. OAITH's alternative to the funding formula describes a definition of what actually takes place in shelters in the province of Ontario today. The funding formula which was ultimately designed as a so-called compromise by MCSS, however, recognized the work that was being done but would not recognize that it should be funded. So we won recognition of what was actually occurring, but without any corresponding support in terms of a policy to support it.

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The Ontario Association of Interval and Transition Houses did not, as a group, support the final document, and does not to this day support the final document. In fact, we have yet to see the final document. We understand that the final funding formula is finished and ready to go out. In fact, we have been told it will go out for consultation. Needless to say, we are of the opinion that we do not need any consultation any more.

In 1988-89, some movement was made in some areas within the needs of the shelter network. Specifically, the province did increase some salary funding for shelter workers, which is a severe problem, and did increase slightly the staffing complements in shelters under what



was known as the salary compensation and the ministry staffing ratio increases.

The staffing, for instance, was done to provide minimum staffing in order for shelters to function because, recognizing that all of this work was being done and yet not funding it, what we believe the ministry was recognizing was yet again another crisis. In other words, it was another emergency measure which was designed to keep the shelters for assaulted women functioning in the province of Ontario. What it provides is a minimum—I would underline “minimum”—staffing just to function in the shelter, and some increase in salaries in order to provide some sort of alleviation of turnover, burnout and the kinds of things that are going on on a day-to-day basis in women’s services generally.

OAITH has protested the inadequacy of these measures and has on an ongoing basis reminded the province of the provisions that we requested in the Alternate Vision formula. I should also mention that in terms of the historical overview, since 1986 the province of Ontario has been involved in an interministerial approach to the problem of wife assault, which included from that time a five-year initiatives plan that focused on 15 different ministries in Ontario and provided some funding to address a diversity of problems that abused women face, including problems in the criminal court system, community counselling, education and so on.

**Ms Duggan:** However, because of an inconsistent and inadequate recognition of shelter services, shelters, despite all our best efforts, are not able to meet the needs of abused women consistently in Ontario. Shelters struggle to provide the services that are recognized in Alternate Vision. However, demands are increasing and are diversifying as education, partly supported by the province—however, education programs within the shelters are not funded although specific education requests are—supports women’s rights to assistance.

The gap is widening, however, between the services we provide and the public commitment to service for abused women, as well as between the problems the public policy has identified and the actual changing needs of abused women. The province is falling behind in its support for assaulted women and their children.

**Ms Morrow:** I would like to turn now to an examination of our alternative funding formula, which is before you. Obviously I am not going to go through this tooth and nail, so to speak. We of course hope that you will read it. We did not provide you with yet another brief because the alternative funding formula approved by the membership of OAITH describes what the membership of OAITH, in working directly with assaulted women, sees as the way that the funding should flow at this moment and the way that the financial arrangements should be made.

I would just like to go through the highlights of what the alternative funding formula vision provides for, which is not being provided for adequately at this time.

It provides for all of the services abused women and their children require to be funded and provided. On page 3 and 4, for instance, you will find on the bottom of the

page the elements of a new funding formula which describes what shelters in the province of Ontario consider to be core services; in other words, basic minimum services for abused women and their children.

These include much more than simply what often in the past has been more or less a flop house with baby-sitting approach to addressing the safety of abused women and their children. This list provides what we believe to be an adequate minimum number of services and kinds of services that abused women need in order to deal with the terrorism in their lives. As you can see, it is a comprehensive program. These kinds of functions are now recognized by the province of Ontario, but not funded.

This funding formula alternative also recognizes the need for community response to violence against women. Specifically, for example, it recognizes the need for a more comprehensive and better funded public education program rather than what is presently happening, which is a sort of project funding of specific small projects, usually in November, that will address short-term kinds of public education, but usually without the funding that would support the human beings who have to engage in this education. We feel that prevention and education are a very central point in this problem and that this is where we will begin to address the problem of wife assault on an ongoing and long-term basis.

This funding formula recognizes the need for that community response. It also recognizes and outlines specifically the staffing levels and salaries that are required to provide these services. Just to point out, one central factor in the staffing would be a requirement and a request for double staffing of shelter services 24 hours a day, seven days a week. This currently does not happen in any shelter in the province of Ontario at the moment, so we get minimum staffing during the day and we get staffing by one person, usually, at night. I think everyone who has any knowledge of violence against women and domestic assault will recognize that the safety factor here is really quite key and central, and that double staffing is required in order not to jeopardize the safety of the residents in the shelter and the staff who work there.

Apart from that, it also recognizes the incredible demand increases from women in the community who respond to education on a broader scale and who are calling the shelter and visiting the shelter without actually staying in the shelter and doing the residential service. I think everyone might also recognize that in providing those services, we can alleviate some of the distress without always engaging in very costly residential solutions, so double staffing is extremely important.

The funding formula, Alternate Vision, also recognizes and demands that the government address the issue of pay equity—equal pay for work of equal value—in the shelter system, which is another one of those systems which is currently not covered under legislation requiring a male comparator because this is an area where the staff is all female. It is another one of those areas where women are job-ghettoized. There is no male comparator.

In the meantime this alternative, which was written two years ago, requires that there be an average minimum



level of salary of \$35,000 per shelter worker in the province of Ontario, with a minimum of \$30,000. Since that time the province has increased its percentage base 4.5% and then 5.5%. So at this point the average salary request in the alternative is \$38,500.

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It has always been our experience that the closer one gets to working directly with assaulted women, the less money there is available to pay for that work, so that what is happening is that advocates for abused women who are advocating to government officials are remunerated at about one third the level of the person whom they are advocating to in many cases.

This is very stressful, very draining, sometimes very dangerous work. It is appalling that there is no recognition of the value of this work in our communities. So this alternative funding formula recognizes the value and asks that it be recognized by public policy.

The alternative funding formula also outlines the need for a change from the funding mechanism, from per diem funding from the municipalities and deficit funding of the deficits after per diem funding is subtracted from the shelter budget. It proposes that the change go, once again, to block funding, the block funding that was proposed almost 10 years ago by the standing committee on social development.

The alternative funding formula also provides for phasing in, as did the original funding formula, of the improvements with definite time lines. Time lines were not given in the original funding formula, so it was more or less a wide-open situation.

I would turn your attention to pages 5 and 6, which outline the three phases that we would suggest. I would particularly like you to note that phase 3, which was the last phase that we suggested, was to be implemented 1 April 1990. That that was a suggestion that there be legislated funding of shelters for abused women and their children and that the province take on that funding 100%—gross funding, in other words, block funding—directly from the province of Ontario. I cannot help but notice that the province of Ontario is already one year behind in terms of accepting our recommendations and of funding the shelter network appropriately.

Those are the highlights that would impact on funding in terms of the alternative funding formula vision. Before we go to questions, I would just like to speak a little bit to the main focus of our presentation here, which is to encourage and support the idea of block funding, a change in the funding mechanism, for the shelters in the province of Ontario. Block funding should be instituted. Block funding has been consistently supported and proposed for the last 10 years. It has been supported in commission reports, such as the standing committee recommendations of almost 10 years ago in the first draft of the shelter review done by Brian Low. It was also suggested in *Transitions*, the report of the Social Assistance Review Committee.

I will give you the recommendation numbers so that you will not have to read through it all. Recommendation 244 and recommendation 247 speak to removing the funding of transition houses from the social assistance legislation and regulating them through special residential

services legislation that is specific to the field; also that it be secure and not based on a per diem funding or the number of residents who are occupying the beds on any particular night or day.

What is happening that is a very big concern to us however, is that the province, through the Ministry of Community and Social Services, in fact seems to be focusing on moving in exactly the opposite direction, which would be to reinforce the same inadequate and insecure funding models which we presently have in existence.

Specifically I would like to draw your attention to the report of the Provincial-Municipal Social Services Review Committee, which has been released and is now under consultation in the province of Ontario. This is the latest report supporting these inadequate models and which will increase the municipal funding responsibility and control. That increase in municipal funding responsibility results in more inadequate rather than improved services for abused women and their children in the province of Ontario.

The presentation package that we have given you includes OAITH's response to the PMSSR and outlines specifically and in detail the problems that we have and the problems that will ensue for abused women and their children if this is implemented in the province.

Before questions—I know our time is running out—I just want to leave you with the strong suggestion that this committee recommend the block funding and begin the financial and economic arrangements that need to be undertaken to provide block funding for shelter services and that this be implemented immediately as suggested in phase 3 of OAITH's alternative funding formula vision and according to the recommendations of all of these many commission reports and groups for the last 10 years.

We have not had time and we will not have time and do not have time to even touch on the other areas affecting funding for services which address abused women's safety, for instance, in the criminal and family law system, in the education system, in housing, in children's programs, in community counselling programs, in economic support systems that address poverty, day care and so on. We do not have time for that.

However, we have included in your package copies of the statements that were made by OAITH in its lobby of provincial MPPs in November. All of you should have a copy of that already, but just in case papers are lost under piles of other papers, we have provided you with another copy. That document basically outlines all of the things that we see right now that need to be done to address the issue of women's safety and programming for women and children. It also impacts, obviously, on funding and financial arrangements of the province and the commitment that the province has made time and time again to taking action to address this issue.

Some of these statements and some of this is also included in the lobby backgrounder which all of you have a copy of. It was sent to you or picked up by you at the lobby or through the mail. It also on the back page talks about the various areas that are involved in the inter-ministerial work on this issue and all of the suggestions



hat we have made and continue to make on how funding needs to be implemented to address the problem.

What is required, I think, at this point, and OAITH has suggested this before, is that there needs to be implemented emergency funding arrangements and emergency measures taken to begin this work rather than some slight increases in the base percentage. We need to have a massive influx of funds at this point in order to resolve some of the problems that are continuing and are building in the province of Ontario.

**Mr Sutherland:** Two questions. One, I just wanted to know if you could give us some idea as to what the additional costs would be in terms of going to the block funding model. Two, is it your sense that some of the education programs are working and that is why your shelters are becoming more burdened?

**Ms Morrow:** To answer your first question about the additional costs, no, I cannot give you a figure. I think that is something that needs to be worked out in consultation with us. We have stated in the past that in terms of the shelter service, it would not be beyond the bounds of possibility to suggest that the funding would have to be doubled. I know that I personally I have been told that that is a ridiculous request.

1430

**Mr Sutherland:** Just on that point, do you have a sense of what—I do not have a sense of what the provincial funding amount is right now.

**Ms Morrow:** It is very difficult and always has been for us to get numbers. The numbers seem to be different every time we get them, depending on the configuration of what is included. The last analysis I saw was dated 1989 and the bottom line was \$40 million across all of the five-year initiatives, in other words, not the shelters, but everything, so all of the interministerial committee funding mechanisms.

Okay, second question. I knew there was something else. I thought, what are they all sitting there for? I have to answer this other question. Around the education programs, I think it is really pretty clear every November, when we have increases in calls because ads are going on the television, that just that one initiative by the province of Ontario does result in increased demand and what little public education is allowed to happen in other ways, through the Ministry of Education and through the incredible efforts of shelters across the province of Ontario to provide it in spite of the fact that it is not funded, yes, I do believe that it makes a big difference.

I in fact am a public educator. That is my job personally in my shelter. I see the results of education when I go out to speak and I know that that results in women calling the shelter. Quite frankly, sometimes there is this real sense of being torn as a public educator, for instance, in knowing that you will give women information that it is their human right to not be assaulted, that assault is a crime and they have a right to safety, knowing that when they call the shelter or the community counselling program, it will not have the space to serve their need.

**Mr Sutherland:** I guess related to that, do you see the problem as growing? Are there more assaults occurring or are more women getting out of abusive situations?

**Ms Morrow:** There is a debate. Even on the front lines, there is a debate about that right now. I do not think anyone has the definitive answer to that question. To those of us working in the field, I mean my shelter is four years old and the demand for our service is so overwhelming at this point that it is at breaking point. I am not sure how long we can go on and we have more than the absolute minimum staff because we fund-raise and we raise the money ourselves. Even then, the gap widens every year and we are falling further and further behind.

There is going to be another shelter crisis just like there was in 1985, and then someone is going to have to come in and bail us out. All of that will happen over and over again. It is extremely irritating and extremely frustrating and extremely cost-ineffective, I might add, in terms of what your interest is. But all I can tell you is that it really does not matter in some ways to us on the front lines, whether the problem is—of course it matters, but in some ways, on the day-to-day basis, when we have 600 crisis calls in our first year and four years later we are getting 2,000 crisis telephone calls, never mind.

We are not funded to answer the telephone. The Ministry of Community and Social Services funds us to put in the telephone. They will pay the telephone bill 100% under emergency telephone crisis line, but they will not pay someone to answer the telephone. So what happens is that the women come into the shelter expecting service, but you are having to answer the telephone all day long and you have to balance.

Lisa is a front-line worker and she can give you an example.

**Ms Duggan:** For example, I work a 12.5-hour day which tends always to be a 14- or 16-hour day by the time you have finished writing up your notes. Just to verify Eileen's point, I went in to work one day at 6:40. At 7:40, I started my day and at 7:40 that night, I sat down and did not even talk to the women who were in the shelter and that only included the phone calls and the people who came in for counselling who are not in the shelter. I think that there is an increasing demand of our time. It is certainly not fair to all of the women who need the service.

**Ms Morrow:** Unfortunately, the province of Ontario in the past has seemed to have this policy that would seem to indicate, and perhaps I am being cynical, that shelter services should not increase their services. There should be no non-residential stuff going on there. One way of preventing that from happening is to say, "We won't fund it."

In my community, unfortunately, which is a large community with more services than most communities in Ontario, there is group programming, for instance, in a community agency, so we have community counselling program. We have the shelter crisis intervention program, residential, but nobody except us, who do it free of charge, provides crisis intervention counselling for women who are not in a long-term situation but who are also not wanting



to go into what for the province would be an expensive residential service.

All of that range of services is required and they need to be funded. Our point is that it is not going to do any good to develop a mass denial attitude on this, that if we do not fund it, it will simply go away or that it does not exist unless it is funded, because it does exist and the shelters are doing all of this work. They are doing it right now.

Ontario has this fantasy that it funds shelters 80%. I also do all the financial planning and budgeting—we do many different things in our line of work in my shelter—and I know that in my shelter Ontario funds 35% of our budget. But because the funding formula says the province of Ontario funds 80% of the deficit after the municipality has given the per diem, there is this fantasy that Ontario funds 80%. In fact, it does not. It does not even recognize some of the full-time workers who work in my shelter. They are funded 100% by the taxpayers through fund-raising.

**Mrs Sullivan:** I want to be really matter of fact in getting responses from you. I think as a woman a lot of the things that you have said I am really responding to in terms of community services, but I would like to know what your estimates of the costs required for emergency funding are now, what the cost of block funding is not only to shelters which are members of OAITH but to those shelters which operate and which are not members of your organization, and any indication that you have of requirements in relationship to funding of secondary housing.

**Ms Morrow:** Second-stage housing?

**Mrs Sullivan:** Yes.

**Ms Morrow:** I will have to answer your question the same way I answered a similar question. I do not have those estimates. I should point out, however, that the vast majority of transition houses in Ontario in fact do belong to the association. There are six or seven that do not at this moment.

I cannot give you those numbers. I guess the other way I would respond to that is that I think it is really not possible for us to give you those numbers. It is not our responsibility to figure out the costs. It is our responsibility to tell you what is needed to keep women safe in this province. We get that information from abused women and their children and we pass it on to you.

To suggest that an association which has two staff members for an 80-member organization or to suggest that individual shelters which go through the kind of constraints that I can certainly give you in detail, including the 16-hour shifts a day working directly with abused women, should be also researching and discovering what it would cost the government to provide what is needed to give women their human rights is not appropriate or possible.

I simply cannot give you those numbers. We cannot. We do not have the time to do it and we do not have the kind of machinery that this committee would have at its disposal, but we are certainly prepared to tell you what it costs us in time and resources and what is currently being

given to shelters in detail, and also what else is required so that we can make those calculations and figure that out.

1440

I guess what I would say in terms of being philosophical about it is that I do not think that money is a consideration here. We do not support the assumption that there is no money or that there is very little money, and that if the government takes it away from battered women, it will have to take it from homeless women to do that or sexual assault victims will not get support if we give the support to abused women.

I think what is required is the political will to make the decision to do this. There is plenty of money for war, for instance, and we are all too familiar with that today, and if we felt that this was an emergency, that body bags coming out of our local community homes were just as important as body bags coming out of F-618s or 925s or whatever they are, we would find the money to do this. We have never supported, nor do we support today, the idea that there is no money and that we have to be careful.

We are telling you what will keep women alive. You must do it. It is non-negotiable. It is a social human rights issue. And I cannot give you those figures.

**Mrs Sullivan:** And second-stage housing?

**Ms Morrow:** I do not have the figures for second-stage housing either, although I would suggest that second-stage housing is very important for some women. That needs to be there but what is even more important is that permanent housing must be there, that many women who are in second-stage housing are in second-stage housing because there is no permanent housing that they can afford and that is safe for them and their children.

**Mr Jackson:** Again, thank you for your presentation. It is such a large, complex issue for you to have to deal with and then try to deal specifically with finances.

Perhaps you could react to these brief, short statements to get a better sense of where we are at and then I have a suggested closing recommendation that you might wish to make to the committee.

A few years ago there was a figure of 10,000 on a waiting list, or put more specifically, 10,000 women who were denied access when presenting themselves or appealing for shelter. Are we far from that figure, roughly, today, to get a sense of how many women are being turned away?

The second statement that, since this is a financial committee looking at impact on budget, knowing we are going into a recession, statistics have indicated that the incidence of abuse rises in this period and domestic homicides also marginally increase so that we are actually even—although we sometimes rationalize that these are tough times for government—you must understand, we can point directly to this issue to see that this is a more complex, more compounded problem period for you.

The final point to react to is that even though the alternative funding formula is being presented again—I have seen three years of presentations on it, but—

**Ms Morrow:** And it will keep coming back.

**Mr Jackson:** —other provinces have bought into this structure in some form. There is stabilized staff funding in



several provinces. It would be fair to place Ontario's commitment, legislatively staffing dollar-wise in protection. We are falling further behind and not making the progress that we are seeing in other provinces.

Those are statistics that I have seen that maybe would be helpful for this committee to understand. We are not maintaining here; we are losing ground relative to other provinces in terms of their legislated commitment.

Could you react to those three statements and then I will briefly suggest a recommendation for the committee, if you would permit me.

**Ms Morrow:** In terms of the 10,000 women on the waiting list, I can tell you that nothing has changed with regard to that, that we still turn away every second woman and every second child from shelter service in Ontario generally. In large urban areas such as Toronto, where there is no housing, you will be looking at a situation where women come into the shelter, then cannot get out of the shelter because there is no housing, and a turn-away rate moving upwards towards 1 out of every 9 or 10 women getting shelter and the other 9 or 10 being turned away. So it is still a serious problem and it continues to be a serious problem. It is a problem in my city as well and everywhere else in the province of Ontario.

With regard to the recession, I would make a couple of points. Yes, I think that will have a negative impact on the demand for shelter services in the province of Ontario and everywhere in the country, obviously. However, having said that, I would caution that you remember that that is not why violence happens, but that it certainly is a trigger that will increase the incidence of violence, that you remember that it will not be the cause, that when there is not a recession there will be, you know, the toothpaste not being put in the right place. But certainly when you have a good excuse, like a recession, to behave in a violent way, then it certainly removes some of the restraint from persons who are violent. That will be a problem for us.

With regard to your third statement about other provinces having block funding, yes, that is true and that has been true for some time. The province of Ontario has not developed secure funding arrangements in a similar way. In spite of the fact that we have a bigger shelter network and we have more services in the province of Ontario, they still are not being managed and we are falling behind in terms of public policy for managing that system.

**Mr Jackson:** Your last statement is for us not to forget that on a per capita basis, though, it is expected that the largest province with nearly 10 million people would have more beds, but on a per capital basis we are still in the lower 25% in this nation.

If this committee does not see fit specifically to isolate, and it has the power to isolate and specifically recommend that the Treasurer look at block funding—they may not go that route, they will discuss that and debate that. However, it is possible for this committee to make a strong recommendation to the Treasurer that a block funding formula be fully costed in consultation with you and then we would have some firm figures to examine.

Traditionally every year you are before this committee. I have had the pleasure—

**Ms Morrow:** No, actually we have never been invited before.

**Mr Jackson:** Well, the rape crisis centres presented some of the violence agenda in past years and they have dealt with transition homes as part of the network. However, it was not your reluctance to cost it, it is that these are very complicated figures. You do not wish to get into a debate with the ministry over them if they are your figures. It is a lot safer and easier if the ministry costs it as at least a partial sign of its willingness to look at your proposal and it is hard for it to look at it properly if it is not willing to cost it and share with you the real cost.

Would you like us to recommend that and nothing else to the Treasurer?

**Ms Morrow:** I would like you to recommend that block funding be implemented.

**Mr Jackson:** We understand that.

**Ms Morrow:** I understand that part of that process is that it has to be costed, obviously, but I would not be prepared to suggest that it just be costed, because people have been talking about implementing or recommending block funding and I am not prepared to suggest that what we want here is that somebody should recommend it again.

What I am saying is that somebody should implement it. It has already been recommended and if it has to be costed to be implemented, then obviously that is one of the steps that have to be taken. We understand that and we also want it to be done in consultation with us, certainly, but I do not feel it is our responsibility to produce the costs, the bottom line, so to speak, to speak in financial terms, but to consult and assist in providing those kinds of figures.

But obviously we are talking about a system where we would like to see equal pay for work of equal value, for which we cannot even give you a reasonable salary cost at this point. We can tell you what it costs right now and then we can tell you that we are being paid inappropriately. So I do not want a situation where you take what the average shelter worker in Ontario gets and then you cost a system that would have more of these underpaid people. The entire system has to be revamped in order for it to be done appropriately and with consultation and assistance. We are always there. We are always at these meetings. We are always saying we do not want another recommendation that it be recommended; we want it done.

1450

**The Chair:** We are running a little behind. I would like to thank you for coming and for a very good presentation. We will be considering the information you have given us.

#### SHARING: A SHARED ACCOMMODATION SERVICE FOR OLDER PEOPLE

**The Chair:** Our next presentation is Edna Beange of Sharing: A Shared Accommodation Service for Older People.

**Ms Beange:** Thank you for scheduling time for our concerns today. I am here as chairman of the board of



Sharing, which is a non-profit matchup service assisting older unattached persons to find suitable partners from among their peers or younger people with whom to share accommodation.

In the province as a whole, there are 16 home sharing organizations funded by the provincial Ministry of Housing in partnership with municipalities on a 75%-25% split, with a \$40,000 cap on the provincial share. Of these 16 agencies, four are geared particularly to seniors: Ottawa, Hamilton, Niagara and in Metropolitan Toronto—Sharing.

The Task Force on Housing for Low-Income Single People, in Toronto, triggered a pilot project in 1985 which led to the establishment of these other groups throughout the province in the following year, 1986. Sharing itself began with New Horizons funds in October 1983 and was not accepted into the provincial stream until 1987. As you can see, these organizations have been in place for some considerable time, but the funding from the Ministry of Housing has been on an ad hoc, year-to-year basis with, in the case of Metro Toronto, matching funds.

I would now wish specifically to address Sharing and its present dilemma. Designed as it is, its activities address the needs of older adults in several ways. One of the home sharing partners must be over 55. The resulting match provides a number of benefits: reduced costs, freeing up necessary funds for other needs; live-in companionship, alleviating the loneliness often experienced by older people living alone; mutual support given over periods of illness and when problems arise; and a greater sense of security, especially in the event of a health crisis.

Becoming increasingly aware of the needs of the frailer elderly for assistance to continue to live as independently as possible, Sharing embarked on a share and care project which was two-pronged. A needs study was funded through a federal seniors independence program grant and has just been completed. I say I have brought executive summaries and unfortunately they are not in your kits. I will be happy to send them to you.

Second, a 30-week pilot project was funded by the Ministry of Community and Social Services to employ part-time staff to work with semi-independent elderly to effectively match them with persons willing to share accommodation and provide some reasonably minimal support in exchange for reduced rent. This is not designed to provide a full-time companion and frequently involves someone who works outside the home. The senior providing the housing would be in receipt of support of community services such as home help or Meals on Wheels, or have a supportive family, but needs a presence in the home overnight. There are many variations. Naturally, the 30-week funding ran out some time ago.

Because Sharing was loath to lose the momentum of something which is obviously meeting a need as part of the long-term care spectrum, we have managed to limp along with some financial assistance from a service club and a foundation. At the same time, we have developed a proposal for the Minister of Community and Social Services, who has scheduled a meeting with us early in February. We have had no response from the Minister of Housing, to whom we also addressed a copy of our proposal.

Our current problem is the lack of commitment on the part of the Ministry of Housing for all the home sharing programs in the province, I might add, not just Sharing but we are specifically zeroing in on this. We were advised that funding would cease as of 31 December 1990 and Metro Toronto also followed suit with a similar withdrawing of funding. As a result of ongoing discussions, three months' funding has been provided up to 31 March 1991. The accompanying letter announcing this arrangement contained the very disturbing comment that if the continued funding was not put in place, it would give the agency time to wind down. In light of the ongoing discussions on long-term care it does not make sense to dismantle something which is working effectively with minimal staff and considerable volunteer activity.

During the past year, Sharing was given a goal of 35 matches. By 31 December 1990, we had achieved 43. This represents 11 from the Share and Care program with the balance a part of our regular stream. If this program were not in place, those 86 persons in many cases would be in need of possibly subsidized housing, a placement in a long-term care facility or some other supports. At the very least, the companionship and quality of life would be lost.

All of the home sharing agencies perform a very useful role in finding housing for a considerable number of people, without which any of these applicants would possibly be a burden on another part of the system. I was just given a statistic on that, that there were 17 until about a month ago when the Etobicoke home sharing had to discontinue because of lack of funds. In 1990, the 17 home sharing agencies made 836 matches—that is the kind of impact—and also a number of the other agencies are more housing registries than matchups. In addition to the 836 matches, they had 859 placements of putting people into self-contained units, so for a very minimal amount of money there is a lot accomplished. The advice and counselling which is incidentally provided to applicants is immeasurable.

To turn again specifically to Sharing, we are a small stand-alone organization with an effectively operating structure which, if funding were to cease, would have to be dismantled just at a time when there is such concern for provision of appropriate support to enable senior members of the community to maintain their independence to the limit of their abilities. We recognize that one-service agencies are not particularly acceptable in these days of rationalization, and for this reason have explored a number of avenues, seeking to join with another appropriate body. So far we have been unsuccessful. However, we are open to any suitable suggestion. We are fortunate to be able to rent office space in a Metro Toronto-owned building, which of course would be lost were we to cease operations on 31 March. Skilled part-time staff would undoubtedly be scattered and a loyal team of active, well-trained volunteers would move on to other things. Then, when the direction of long-term care becomes clearer, the wheel would have to be reinvented. It does not make sense that for lack of \$40,000 of provincial money an effective organization which is addressing some of the most pressing needs of our older population is to be dismantled.



Thank you for the opportunity to present our concerns and ask for your consideration of the very real need for this service.

**The Chair:** Questions from the committee.

**Mr Sutherland:** I just have one. Most of the ones that you talked about seemed to be in the central Ontario area. Do you have any knowledge of any of these—

**Ms Beange:** The other home sharing programs?

**Mr Sutherland:** Yes, sort of trying to get them throughout the rest of the province.

**Ms Beange:** There are 16 scattered throughout the province. There are, I think, six in Metro Toronto. Ours together with Ottawa and Niagara and Hamilton are the only ones that specifically address the needs of seniors. As you can imagine, in a matching program, particularly with seniors who are somewhat more sensitive about whom they share a house with, it is quite a time-consuming effort, so it is rather a specialized type of thing.

**Mr Sutherland:** Is there any movement afoot or any groups that have contacted you for expanding the Sharing aspect specifically for seniors, in the other areas?

**Ms Beange:** No, we are a Metro Toronto agency, and a small one, as I say.

**Mr Sutherland:** I just thought that they might come to you for information.

**Ms Beange:** I think Sharing is regarded as sort of the grandmother of the group in that we have been growing since 1983, and certainly directions and activities that we undertake are appreciated by the other agencies in the province.

**The Chair:** Thank you for coming. It was a very nice presentation.

**Ms Beange:** It did not seem very urgent after listening to the women's shelters, I agree, but I think I am speaking on behalf of a quiet group of people. The seniors who are somewhat frail or somewhat housebound or are in need of assistance I think are the kinds of people for whom I am speaking. They are not quite so high profile as some of the others, but the need is there and overall it is about \$900,000 for the total province, all the home-sharing agencies. Individually, it is \$40,000. We think we are somewhat unique and we do need some assistance.

In your package you will find a couple of letters from SPRINT, which is Senior People's Resources in North Toronto—I will not read them to you, but you can find them there—commenting on the effect that our services had on some of their clients.

I thank you very much for listening to us. At least we have raised your awareness.

**The Chair:** That is the most important thing to do in the first stage.

#### ROYAL BANK OF CANADA

**The Chair:** Our next presentation is from the Royal Bank of Canada, Alex Thomson, vice-president of economics. I would like to thank you for responding to our invitation.

**Mr Thomson:** It is my pleasure, Mr Chairman. I would like to illustrate my remarks with some slides. I sometimes find it easier to talk with pictures. It is sometimes easier on the audience.

**The Chair:** I think we should probably turn out the lights and pull the drapes. Unless we are going to watch it on Mr Phillips's shirt, I think we may have to ask him to move. Maybe we could take just a short two-minute break.

The committee recessed at 1503.

1507

**Mr Thomson:** My name is Alex Thomson. I am vice-president of economics at the Royal Bank. My responsibilities are to manage the economics department of the bank. Accompanying me here today is Mark Chandler, who is my assistant chief economist, who is based in Toronto and is quite knowledgeable about the economy of Ontario.

What I would like to do is to speak for about 20 minutes on the Canadian economic outlook, with particular focus on Ontario. I would like to focus in basically on three things: The first is, where do Canada and Ontario stand now in terms of the economic cycle? Second, what challenges and risks do we face as an economic nation? The third thing is the outlook for Ontario as we see it.

The first thing I would like to point out, which is obvious, is that Canada and Ontario are in recession. Essentially we have had a very strong 1980s. We have had the longest recovery and expansion phase of the economic cycle in our postwar economic history, for a little over seven years. As you can see from this chart, the economy of Canada began to decelerate in the early part of 1988. That deceleration continued through 1989, and in the early part of 1990 we moved into the negative growth range where the economy began to contract. The definition of a recession is that the economy is in a phase of the cycle where the level of economic activity is actually contracting. That is where we are now. While we do not have the full figures available, we expect that when they are available they will show that the recession in Canada has extended through to the present day.

Obviously, with the slowdown in economic activity we are seeing a decline in terms of employment growth, and as you can see from this chart, paralleling the movement and economic activity as we moved towards the latter part of 1990, we began to see actual declines or job losses within the Canadian economy. Similarly, with the decline in employment, as you can see, the unemployment rate in Canada has moved up from its cyclical peak or low point of 7.2% in the early part of 1990 to 9.3% today.

The movement in Ontario has been similar in magnitude. However, because of the extraordinary growth in the economy of Ontario during the period of expansion, as you are well aware, the level of resource utilization and the unemployment rate moved down to about the 5% level in the province at the peak of the cycle. Since the recession has begun, the unemployment rate in Ontario has moved up by about the same magnitude as the rest of the country but at a lower level, with the unemployment rate in the country now being just over 7%.



In terms of the recession, it is the culmination of a number of factors within our economy. One is simply the fact that we had the longest recovery and expansion in our postwar history. With that long expansion, imbalances and excesses began to develop in our economy. Therefore the economy moved into a period of slower growth, which is part of the natural ebb and flow of economic affairs.

The second thing that has occurred, of course, has been the slowdown in economic activity in the United States. Because 25% of Canada's economy is dependent on trade, and the bulk of that with the United States, with the slowdown in economic activity in the country south of the border, it has had impacts on our economy here.

The third thing, of course, is that we are seeing a rise in the price of oil, at least had seen until just a few days ago. Because of that rise in the price of oil, the change in relative prices and the income transfers that take place because of that rise in the price of oil, our economy went into a period of adjustment which also slowed economic growth.

At the same time, there is no question that one factor in terms of the slowdown in economic growth which we have seen has been the high level of interest rates in Canada, in comparison with the United States particularly and also in real terms—that is after deducting the rate of inflation—which gives you a measure of the real cost of funds within our economy. As you can see from this chart, while rates have come down to that point in December and have come down early in January, we still are seeing in Canada rates which are very high relative to the United States and very high in real terms.

I would like to make several points about interest rates in Canada and their complementary price within the economy and the exchange rate, because the exchange rate and interest rates tend to move in tandem. The first is that the way in which we have divided responsibility for our economic policies within the country, the Bank of Canada is responsible for attempting to maintain a low and stable rate of inflation. That is its job for our economy and the single job to which it is allocated. From the Bank of Canada's perspective, we have been facing and continue to face a relatively serious inflation problem.

As you can see from this chart, the rate of inflation in Canada has been hovering around the 5% rate over the past year or so. We have achieved a 5% rate of inflation, but a 5% rate of inflation still means that we would lose, over a 10-year period, about 40% of the purchasing power of our money. Therefore, because of that, we are concerned—I am sorry, over five years we would lose approximately a third of the purchasing power of our money. I was calculating as I was going along there and did it wrong. That level of inflation with that decline in purchasing power would lead to substantial unwarranted income transfers within our economy and therefore it would not be conducive to solid economic performance.

The other point I would make about our inflation rate is that we have achieved a 5% inflation rate in an environment over that period of time in which our exchange rate has appreciated very significantly. Because of that appreciation of the exchange rate and the fact that we import approximately 25% of the goods consumed within our

economy, effectively what we have done is suppress domestic inflation as measured by the CPI because of the relatively low cost of our imports. We would estimate that effectively we have parked about 2% of a general price rise in the Canadian economy in our high exchange rate. When the exchange rate unwinds, as we believe it eventually will, that price rise will be released back into the Canadian economy. So we are, in terms of our measured inflation performance, facing an unacceptable situation.

The second point is, in terms of costs, we also have seen wage and salary rates in Canada move up to about the 6% to 6.5% to 7% level in Canada, and considerably higher than that of the United States. Effectively, since labour makes up approximately two thirds of the overall economic costs in our society, wage and salary increases at this level were inconsistent with maintaining our inflation rate even at the 5% level.

To top it all off, as you are aware, we have faced now the introduction of the GST on 1 January. As a consequence of the GST, we are likely going to see about a 1.5% increase in terms of our measured inflation rate during the early part of 1991. There was considerable concern in this environment that we are facing, with respect to price and cost increases, that the introduction of the GST would lead to even higher wage and salary increases which would feed through into prices and, therefore, lead to a round secondary and tertiary rounds, of price increases that would feed through into a permanent rise in terms of the rate of inflation.

So for all those reasons, because the Bank of Canada has a responsibility for inflation within the allocation of responsibilities within our system, they were quite concerned about the inflationary situation. But that does not explain in my mind why we have interest rates so much higher relative to the rate of inflation in recent years than we have seen in the past.

During the postwar era it seemed that unreal interest rates in the order of 3% to 5% were sufficient to slow down the level of activity within our economy. More recently, we seem to be seeing real interest rates in the order of 7% to 10% as being necessary to slow down the economy and also to dampen inflationary and cost pressures within our economy. I think a large part of the reason why we have much higher interest rates today than we have in the past is an imbalance or mismatch between our monetary policy and our fiscal policy.

What this chart shows is essentially that we have seen mounting levels of government debt, particularly at the federal level. And as you can see, we are continuing, until we have seen a very sharp rise in terms of the percentage of debt outstanding by the federal government to gross domestic product and, at the same time, we are continuing to see a deficit at the federal level of approximately \$30 billion a year. The federal deficit and the financing that accompanies that place stress on our financial markets and interest rates rise in order to force other borrowers to withdraw from financial markets in order to leave room for the federal government, because the federal government, as the premier credit in the land, always gets the funds that it requires. It is other borrowers that must make adjustments.



As a consequence of the federal government placing that strain and demand on our financial markets and the necessity of having interest rates rise in order to encourage other borrowers to leave the market and to leave room for the federal government, interest rates have gone up. At the same time, part of that process has been that we have turned to foreign capital inflows in order to balance demand and supply within our domestic financial markets. As you can see from this chart, Canada also has been sharply increasing its reliance on foreign debt. What that means is that every year we are asking foreign investors not just to maintain their investments or holdings of Canadian securities, but also to increase their holdings of Canadian securities, increase their allocation of funds to Canadian debt in order to balance demand and supply in Canadian financial markets. Essentially, because we increasingly rely on foreign borrowers, we also have to provide increasingly attractive interest rate incentive for those borrowers to hold Canadian dollar securities relative to securities issued by other borrowers.

1520

The consequence of those foreign capital inflows has been that the Canadian dollar has increased quite significantly. As you can see from this chart, while it has been fairly volatile over the course of 1990 and 1991, it has tended to average at about the 86-cent to 87-cent level relative to the US dollar. Our basic view is that the level of the Canadian dollar that would be consistent with Canada's underlying price and cost structure relative to our trading partners would probably be in the order of 80 cents. Therefore, in effect, because of the foreign capital inflows that are encouraged because of the mismatch between monetary and fiscal policy, we are seeing those foreign capital inflows, which is leading to a sharp rise in the Canadian dollar which is causing distress for people in the export business and also Canadian manufacturers and producers who compete directly with imports.

**Mr Phillips:** A point of clarification, if I might: The percentage of foreign debt at 35%, is that for the federal debt or for the total debt of the country?

**Mr Thomson:** That is for federal.

**Mr Phillips:** The federal, the \$350-billion to \$360-billion debt in Canada.

**The Chair:** Do you have any raw numbers in terms of absolute dollars the Canadian government owes overseas? How much of it is domestic and how much is offshore?

**Mr Thomson:** I do not have that at my fingertips. The overall federal debt is about \$350 billion. Certainly a portion of that would be nominated in US dollars, a relatively small proportion. The other part would be Canadian dollar securities held by foreign investors. At the same time, what would also happen is that other borrowers, provincial and municipal and corporate, would be turning to foreign capital markets because of the pressures within Canadian financial markets. Therefore, it would be the entire group together that would represent our obligations to foreign borrowers, which would be creating the kind of environment in which we set interest rates.

**The Chair:** Just to pursue this for a moment, I think Diane Francis wrote an article in the Financial Post that the foreign debt of the Canadian government is \$57 billion owed overseas, but that the private sector owes something like \$260 billion overseas. Is the fact that the private sector debt is so large also part of the equation that leads to the high dollar and the foreign borrowing?

**Mr Thomson:** Let me put it another way. Essentially, we have had a deficit in place through quite an extraordinary expansion within the Canadian economy. An appropriate fiscal policy at the federal level and other government levels could be that you would borrow and have a deficit during times of economic weakness. When you move into periods of economic strength, the borrowing demands of the private sector move up quite significantly. What should happen in order to balance financial markets in that environment is that the federal government should move into a cash surplus position. In other words, rather than drawing funds away from the market it should be contributing funds towards the market.

What we have seen is that over the period of the expansion of the 1980s, the federal government has been a continual taker of funds in financial markets, with the consequence that other borrowers—in effect, the federal government is using up available savings provided principally by the Canadian consumer, by Canadian families. They are investing in those government instruments, which then of course leads other borrowers, where those funds are not available to them, to turn to foreign savers in order to capture or obtain the funds they want to make the investments or whatever other purpose they wish to borrow for. The fact that private borrowers have gone abroad is neither here nor there. The issue is that altogether, in terms of the demands placed on Canadian savings because of the addition of the government borrowing demands over the period of the economic upswing, when the increase in private sector borrowing occurs, we continue to see heavy demands by federal government, which has caused other borrowers to turn abroad. Does that answer your question?

**The Chair:** Yes, it does help.

**Mr Thomson:** For example, suppose we did have balance in our domestic financial markets, then a private borrower goes abroad. What would happen in those circumstances is that if a private sector borrower or any other borrower goes abroad and we have a demand and supply balance in our Canadian financial markets, we would obviously have a surplus of funds here in Canada, which would then cause us to purchase debt or other instruments abroad, so on a net basis we would come out the same. See what I mean? Looking at Canada, it is the overall gap between demand and supply which is the problem.

**The Chair:** Okay. I will not make my political comment.

**Mr Thomson:** Because of this mismatch we have had very high interest rates and a high exchange rate. What that means in terms of the current recession is that it is has been relatively unbalanced. Because of the high level of interest rates and exchange rate, interest-sensitive areas and exchange-rate-sensitive areas such as export industries



have paid more than their share in terms of the current recession in comparison with the past.

As you can see from this chart, with industrial production, the slowdown became more pronounced earlier than in the rest of the economy. And as you can see from the chart, the negative numbers for industrial production basically began earlier and have been deeper than for the rest of the economy. The goods sector of our economy, and most particularly the manufacturing sector of our economy, which is concentrated very much in Ontario and Quebec, has been more affected by the current recession than they would have been if we had a more balanced economic policy structure.

One point I would like to make is that in terms of our manufacturing sector high interest rates and a high exchange rate are an important part of the problem, but they are only part of the problem. What this chart shows is average hourly earnings in manufacturing in Canadian dollars for both the United States and Canada over the past five years. As you can see, the index in the United States has been moving down, principally because of the appreciation of the Canadian dollar. The Canadian index has moved up quite significantly.

Over that period of time, it turns out that average hourly earnings, or unit labour costs, in Canada have increased in Canadian dollars at something like 42% more than average hourly earnings or unit labour costs in the United States. Only about 40% of that increase has been due to the exchange rate, even though we are taking a period of time, in 1986, when the exchange rate was at a record low of approximately 70 cents. So over that time, when our exchange rate has appreciated from about 70 cents to approximately 86 or 87 cents today, that only accounts for about 40% of the overall deterioration in the unit labour costs in Canadian manufacturing relative to the United States. The remainder of that change has principally been due to the higher increase in wage costs that has occurred in Canada, which is roughly the same as the magnitude of the increase in the exchange rate. The other factor is that we have seen some fairly significant productivity or efficiency improvements in US manufacturing over that period of time. We essentially have seen a flat picture for productivity or efficiency in the Canadian manufacturing sector.

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**Mr Sutherland:** Could I get a clarification? You said the overall difference on the scale was 42%?

**Mr Thomson:** Yes.

**Mr Sutherland:** You said 40% of that has to do with fluctuations in the exchange, and the other 2% is due to labour costs?

**Mr Thomson:** That is right.

**Mr Kwinter:** Does this average hourly earnings include fringe or is that just the nominal labour rate?

**Mr Thomson:** I believe that is just the basic rate. I do not think it includes fringe.

**Mr Kwinter:** Do you have any figures about what happens when you add the fringe in?

**Mr Thomson:** I could certainly get them. It really would be about the same.

**Mr Kwinter:** The reason I ask that is that we have always had an advantage in Ontario—and we had someone in this morning who sort of confirmed it—as far as labour costs are concerned when you take everything in when you add the fringe, when you add the univers, medicare and all of that stuff. I am just wondering whether you have figures on that, because this gives the impression that our labour costs are non-competitive, when, certainly in the auto industry I have always heard there is an almost \$10-an-hour differential between Ontario and, say, Michigan in favour of Ontario.

**Mr Thomson:** Somewhere buried in this mass, I have it by industry. There is no question that in terms of the differential between the United States and Canada the auto industry is one that is quite favourable relative to the others, but when you move into some of the other industries or manufacturing sectors in Canada and Ontario it deteriorates quite significantly.

The one point I would make is that regardless of how we talk about the levels, what we are talking about here in terms of the last five years is a change in the relative labour costs within our sector versus that in the United States. Of course, regardless of the levels, that deterioration is still going to have an impact on the sector here.

**Mr Phillips:** I just want to make sure I understood the answer you gave to Mr Sutherland. You said there had been a 42% swing in the differential between Canada and the US wage rates.

**Mr Thomson:** Yes.

**Mr Phillips:** I thought you said 40% of that is due to the exchange rate and 60% is due to wage changes. If your answer to him was that 40 percentage points was due to the exchange and two percentage points due to the wage differences, which is the right answer?

**Mr Thomson:** I am sorry. It is that 40% of that is due to the exchange rate change. The remainder is due to both productivity and wage rates.

**Mr Phillips:** That is, 60%?

**Mr Thomson:** Yes.

**Mr Phillips:** That is what I thought, but you said to him—

**Mr Thomson:** I am sorry.

**The Chair:** Given that there is such a discrepancy in the wages paid in the United States—this average is for the entire United States—do you have any sense of what it is in the immediate area around Ontario: New York state, Ohio, Michigan?

**Mr Thomson:** I do not.

**Mr Chandler:** The Ontario Ministry of Treasury and Economics has done some work in that area. They find that Canada, and Ontario in particular, is more competitive with the northeast states. But once again it is a question of rates of change, and any competitive advantage we might have had over the last several years has certainly been eroded. If you look at it, particularly with more of the



southeast states, there is a big cost disadvantage there. It is something that has become more and more of a concern for the Ontario manufacturing sector. They have done some extensive work in this area and part of it involved as well what kind of benefit you get from OHIP. How is that comparable to what is being paid in terms of private insurance in the US? It turns out it is not a huge advantage for Canadian manufacturers, something in the 6%-of-payroll range. So we cannot continue to count on that as a benefit.

**Mrs Sullivan:** My understanding is that the comparison of, say, employee health coverage in border states, which are highly competitive with Ontario and in fact are our markets, is about \$3,800 per employee, whereas in Canada in the same sectors it is about \$800. So you are talking about a singular advantage.

**Mr Chandler:** Yes, but about 60% of production costs is made up of wages. So this, overall, would have a bigger impact. Once again, we are talking rates of change. I would refer you to the Ministry of Treasury and Economics for its studies along these lines, but it is something of big concern to manufacturers, and that is what we hear often when we go on the road and talk to them.

**Mr Thomson:** Let me turn to the outlook. First, let me say that we have made some fairly benign assumptions with respect to our outlook. We are making the assumption in terms of our forecast that the oil price will be in the \$20-less range per barrel. As you can see from this chart, if we were to see a sustained level of a \$30 oil price, then we would see a negative impact in terms of the growth prospects for our major trading partners as well as ourselves. Clearly, because of the negative impact on our major trading partners it would have a negative impact in terms of our export performance. While we are relatively self-sufficient in terms of oil and gas and other forms of energy, a rise in the price of oil of that magnitude over a period of time would lead to fairly significant income transfers within the country that would have to be accommodated with detrimental impact in terms of our growth. We are making the assumption in terms of our forecast that we will not have this kind of environment but have an oil price of \$20 or less.

We are also making the assumption that we will not see any major reduction in terms of the structural deficit at the federal level. In fact, because of the recession and the effect it has on revenue generation and increased expenditures by the federal government, likely we will see an increase in the federal deficit over the next several years. We are expecting it to move up to the \$35-billion range in the coming fiscal year.

Offsetting that to some degree, because of the slowdown in the demand by the private sector for funds we should see an improvement in terms of net private domestic savings. But we will continue, because of the gap between private domestic savings and the demands by the federal government, to rely heavily on foreign funds over this period of time, which has implications for our interest rates and exchange rate.

We are also making the assumption in terms of our inflation rate that we will see the consumer price index

move up because of the introduction of the GST, but we are also making the assumption that the labour market will behave in a rational way and the workers or employees will not try—

**Mr Kwinter:** Do you hear that, Gordon?

**Mr Thomson:** As you obviously cannot get a tax back from your employer in a non-inflationary environment, if you are going to protest a tax there is little point in protesting to your employer; you protest at the ballot box. So we are making the assumption that the labour market will behave in a rational way, that the labour force will absorb the reduction in real incomes that accompanies the GST, and therefore we will move into a more subdued cost-increase environment. As a consequence of that, we are expecting the rate of inflation in Canada, as we move forward into 1992, to fall back to about the 4% level.

With that environment, we are expecting that Canadian interest rates will decline, with the short-term commercial paper rate moving to just below 10%. We are expecting the differential with the United States to decline. Even with that, we will continue to see real interest rates of above 5%, which will be relatively high in comparison with the past, at least prior to the last several years.

With that reduction in interest rates and differential with the United States, we are also expecting the Canadian dollar to depreciate to about the 83-cent level over the next several years, which should provide some relief to our manufacturers and export sector and import-competing areas. Nevertheless, we still think the dollar will be remaining above the level over the next several years, which should provide some relief to our manufacturers and export sector and import competing areas, but nevertheless we still think the dollar will remain above a level which is consistent with our underlying cost and price structure relative to our trading partners.

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**The Chair:** I asked this question this morning and I would like to hear your response to it as well. Given that in January 1990 the central bank lowered its prime lending rate, which led to a decline in the value of the Canadian dollar and an immediate response on behalf of the central bank to increase the prime lending rate back up, what is it that makes you optimistic that the dollar will decline and do what you are suggesting or that the central bank rate will allow it to decline?

**Mr Thomson:** I can give you a half-hour answer to that, but let me try to capsulize it in a couple of minutes.

**The Chair:** It would certainly help if you were to do that.

**Mr Thomson:** What happened in January 1990 was that the Bank of Canada was looking at a series of economic numbers that looked as if the economy was in a recession. We and others were visibly revising our forecast to incorporate a recession occurring at the end of 1989. The Bank of Canada began to gingerly reduce interest rates, and as you know it reduced interest rates or the bank rate by about 25 bases points, with the consequence that the exchange rate fell very sharply by, I believe, about 3.5 cents in the space of a week or so.



First of all, I do not understand the reaction of the strange marketplace in that environment. As it turned out, that was not why interest rates rose later. What happened was that almost as soon as the Bank of Canada began to reduce interest rates, new economic numbers came out which showed that the economy, rather than moving into a recession, was still relatively robust. For example, business investment was still strong. Housing starts remained extraordinarily strong through the first quarter of 1990. Basically the economy looked to be relatively robust.

The Bank of Canada then went on to increase interest rates at that time, not because it wanted to protect the dollar but because it felt that the economy was now moving in a direction that it had not foreseen and did not expect, as did the rest of us. That is the reason the interest rates went up.

At the same time maybe the market was prescient in the sense that it thought the economy was stronger than economists were reading, and therefore reacted to the reduction in the bank rate that took place as being in some way the surrender by the Bank of the Canada with respect to its inflationary policies. That may be the case.

The point is that if the Bank of Canada makes an interest rate move that is considered by the market to be an abandonment of its inflationary policy, the exchange market will react badly. This time around, as you know, we have had reductions in interest rates over the past little while, but they have not had the same kind of impact on the exchange rate as they had earlier. Basically, I think the market does have confidence and trust in the Bank of Canada with respect to its inflationary course and thinks it is seeing signs, and we think we are seeing signs, that it is beginning to be successful.

Because of the slowdown in the economy, those signs that we appear to be relatively successful in reducing inflation are turning around the inflationary situation. The market in that environment is willing to accept interest rate reductions by the Bank of Canada in a relatively stable and gradual lowering, rather than abrupt lowering of the exchange rate. Does that help?

**The Chair:** That does not answer one question, why it is that our inflation rate is only about 0.1% or 0.2% higher than the American inflation rate and yet they have such a low central bank rate. If what we are really doing is battling the inflation rate using a high central bank rate, why is it that their rate is so much lower than ours at a time when our interest rates are so much higher?

**Mr Thomson:** The first point I would make is the one I made earlier, which is that in terms of our underlying inflation rate, the CPI is not measuring that properly. Because of the appreciation of the exchange rate over the last several years, we have dampened our measured inflation rate because of that. It is parked there. It is going to be released back into our economy.

The second point I would make is that in terms of underlying cost and price movements within the United States, particularly in terms of wage costs and other costs within its economy, it has been performing at rates that appear to be relatively favourable compared with Canada.

Therefore, the market, I think, is tending to read a somewhat more favourable situation there than in Canada.

If we can move to an environment whereby our inflation rate moves down, and moves down below that of the United States—because I certainly do not think the American experience with inflation in the last few years is entirely satisfactory either—then hopefully we can move to an environment whereby our rates will be down to their levels.

**Mr Phillips:** Still on the same point, this will take the dollar down by two or so points over the year, I gather, the foreign capital markets will see their capital here in Canada appreciate by 2% or 2.5%. You see this contributing maybe 1% inflation to the economy, based on the thing you went through.

**Mr Thomson:** Yes.

**Mr Phillips:** You went to an 80-cent dollar, you think it is 2%, so 1% of inflation in the economy; second, how do you manage your way with our foreign borrowers, that they do not vacate the market or—

**Mr Thomson:** That is an excellent question. Clearly, if you are going to have a depreciation, the thing you should do is have it immediately, because if you do have expectations that your exchange rate is going to depreciate gradually, then that feeds through, of course, into the interest rates that foreign investors will expect in order to keep them whole in terms of their own currency. But essentially what we are expecting in terms of this environment, rather than looking at sort of the smooth gradual decline, I would tend to think that over this period of time we will see the exchange rate move to a lower level.

One of the risks in terms of our forecast, of course, is if we see an abrupt decline that is considerably greater than we are expecting here. For example, because of political uncertainty, because of the constitutional debate within this country, if that causes foreign investors to question our confidence or demand a risk premium in terms of Canadian assets, then that could have a sharper impact in terms of the exchange rate. Also, if we have for whatever reason some catalytic event that causes foreign investors to lose confidence in Canada and its economic prospects and policy environment, that could also have a sharp impact in terms of the exchange rate. As I say, we are making the assumption of a relatively benign economic climate for our view in terms of the forecast.

What we are expecting in terms of our forecast is that we are essentially looking for the recession to end by the middle of this year. Effectively, what we are looking for is a relatively, if I could use this term, normal recession. We are looking for a recession that will be approximately 40% to 50% as severe as the one in 1981-82.

One of the discouraging things, I think, in terms of the outlook is that when we move into the recovery phase in the latter part of this year and in 1992, it will be a relatively modest recovery. Canada's potential rate of growth is about 3% per year. What that means is that the growth in our economic output should be about 3% per year in order to maintain a constant utilization of our economic resources because of growth in the labour force, because of



improvements in productivity and because of capital investment. The capacity of our economy is growing by 3%. Therefore, we need to grow by 3% just to keep things even.

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We do not expect to reach that 3% level until well into 1992. Therefore, by the end of 1992 we will probably only have achieved the level of economic activity that we experienced at the peak of the economic expansion in the first quarter of 1990. Part of the reason for that, of course, is the fact of some structural difficulties with respect to our costs. Also, while we are expecting the interest rate and exchange rate to decline, we are expecting that we will continue to see relatively high levels in those two areas.

This is kind of an awkward colour and I apologize, but perhaps I could just sort of explain. This shows real gross domestic product growth in Ontario. Essentially, Ontario experienced a somewhat deeper recession at the initial stages of the recession. The decline or deceleration of the rate of growth was somewhat steeper in Ontario relative to the rest of the country. We are expecting that Ontario will also show negative growth in 1991, about 0.3%, and we are expecting in 1992 that the growth in the Ontario economy will be roughly about the national average, just about 0.5%.

In terms of the unemployment rate, again, we are expecting to see the unemployment rate move to about the 0.5% level in 1991 on average over the course of the year. We are expecting to see it decline somewhat moderately to just below 7% in 1992 with the recovery.

Essentially, in terms of the level of unemployment in Ontario, we are expecting the rate to be approximately two percentage points below that of the rest of the country. Therefore, in terms of the utilization of its labour force and labour resources within the province, the level of utilization within the province will be greater than that for the rest of the country taken as a whole.

In terms of retail sales, we are expecting quite a weak picture. In 1990, retail sales declined by close to 2% in nominal terms. When you take in our rate of inflation of 3%, clearly that was a very sharp drop in after-inflation terms.

In 1991, we are expecting to see an increase of about 1% in current terms. Much of that is principally due to the GST and the increase in prices associated with that. In real terms, we expect to continue to see a sharp contraction in terms of retail sales within the province.

Of course, this reflects the higher levels of unemployment, and with the prospects or concern about people, about their job security as well as the decline in housing prices in southern Ontario, this is having an effect on confidence and people's commitment to spending. So we are expecting to see a relatively weak picture in 1992. We are expecting to see an improvement in terms of sales, but after inflation it will be a relatively modest improvement.

**Mr Kwinter:** In your projection on retail sales, have you factored in cross-border shopping and is that a significant component?

**Mr Thomson:** Yes, we have to some degree in the sense that the figure for 1990 clearly has been affected by that. Therefore, we are taking that into account in terms of the overall picture.

**Mrs Sullivan:** If you were looking at constant dollars for retail sales in 1991, what level would you be looking at, about the 1988 level?

**Mr Thomson:** If you are looking in constant dollars in 1990, you have a decline of close to 7%. You are looking at a decline in 1991 of about a further 4%. Putting that together, it would bring you back to where you were in about 1988 or 1987.

In terms of housing starts, clearly we have seen some very substantial declines in Ontario. We are expecting that to continue in 1991, part because of what occurred in Ontario and part because of speculation that took place in that particular market, but effectively the level of housing starts and housing completions earlier, prior to the recession, were well above demographic demand, particularly taking into account the fact that interprovincial migration into the province has fallen quite sharply, and therefore of course the province has an excess supply of inventory that must be worked off in order to lead to a recovery in terms of housing starts.

We are expecting in 1992 to see some modest improvement in terms of housing starts, but clearly the level of housing starts and housing construction that takes place would be well below that experienced in the latter part of the 1980s when the recovery was in full swing.

In terms of non-residential investment, here we are expecting to see in 1990—this is in current dollars as well, so when we show zero in 1990 of course we are seeing a decline in real terms or a contraction of about 5%. A decline in 1991, which will be completely concentrated in terms of commercial construction, will also be sharply negative, of approximately 7% or 8%, and we are expecting to see modest increase in nominal terms in 1992 and probably a further contraction in real terms.

The one point I would like to make about non-residential investment, however, is that if you look back Ontario and the rest of the country also experienced extraordinarily rapid growth in terms of overall investment. Essentially, in 1989 investment as a proportion of the economy reached a record high level. I think there were a number of factors that were taking place. The first was that after the longest recovery and expansion phase, a number of regions and sectors were hitting capacity constraints and therefore were making the investments in order to increase their production capability.

I think the second thing is—much of this investment was taking place in the manufacturing sector and principally in southwestern Ontario, because of the global competition and the increased competition because of free trade or expectations of competition because of free trade—that substantial amounts of investment were taking place in order to rationalize the production process in order to improve efficiency and reduce costs for that kind of competitive environment.

The third thing, I think, that was happening was that the cost of technology, computers and telecommunications, has come down quite significantly. In addition to that the application of that technology is now well known. Five years ago, when businesses bought a computer, the first thing they had to do was figure out how to use it. Now when you buy a computer the applications are there and they can be applied and the expenditure on that equipment can become productive and substantially improve efficiency almost immediately. Therefore, there was substantial expenditure on high technology, computers and telecommunications, in order to improve the efficiency of production processes and office systems. That was also part of the investment that was taking place.

When you put that all together, even though we are seeing a reduction in investment taking place in the recession that is now occurring, we do not expect a reduction in investment in percentage terms to be quite as severe as it was in 1981-82. At the same time, because the economy is coming off a very high level of investment, we expect that the proportion of investment and the degree of investment that is taking place within our economy will still remain relatively favourable. It would have been even more favourable if it were not contractive, but given that we are in a recession, it is still in a relatively favourable phase.

With that, I would like to end my remarks and I would be happy to answer any further questions you might have.

**Mrs Sullivan:** I want to pursue your last slide in relationship to business investment. Your chart shows the decline in the rate. Can you give us an idea of what the actual level of 1989 business investment in Ontario was in current dollar terms?

**Mr Thomson:** I could certainly provide that number to you at a later time. In terms of the overall proportion of the economy which was accounted for by investment it would be approximately 17%.

**Mrs Sullivan:** It would be 17% of the economy.

**Mr Thomson:** Yes. With the reduction we are seeing, we would expect that to decline.

**Mr Jamison:** Your report dealt with many of the economic signs presented this morning by the Toronto-Dominion Bank.

**Mr Thomson:** Okay. I did not know that.

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**Mr Jamison:** We had the honour of their presence this morning, and one question that was asked basically related to the ability to rebound from the recession and jobs. There is a phenomenon happening right now that makes this recession, again, different from the recession of 1982. It seems to be that permanent layoffs are occurring at a much higher level and the effect of that is obvious as far as rebound in the economy. Our figures, the figures that the government of Ontario collects, only equate to 50-plus employer groups. My feeling is that many of the 50-minus groups are disappearing. What effect will that have on our ability to rebound and what type of jobs, if any, are replacing those?

**Mr Thomson:** You put your finger on a critical question and one that we are examining very, very closely in our shop, and I am sure it is happening in other economic shops as well. But the answer to your question is, I do not know, and the reason is that I am not sure about the permanence.

I have heard the argument, and I hear it very often, "But this is different from the last time because the losses last time were cyclical; this time they are permanent." Now, let me sort out the strands of the answer.

The first thing is that if you look at manufacturing employment, essentially what happened was, during the period of the late 1980s, in part because of the very low level of the Canadian dollar, in the 70-cent range—I say that now the Canadian dollar is overvalued and is hurting our exports and import-competing industries. That kind of dollar, in the 70-cent range, was clearly undervalued and was providing encouragement to exports and import-competing sectors.

When we look at the employment levels from about 1986 through 1989, there was a very sharp rise in manufacturing employment in Canada and Ontario. As we moved into the last little while, we have begun to move down in terms of manufacturing employment and we have not seen something yet that is as severe as 1981-82 and we have not come back to trend. By trend, I mean the trend in terms of manufacturing employment within our nation. If you want a trend through the last 15 years, we moved well above trend in the last five years and we are beginning to come down, but we are not back to trend.

The second point I would make is that if you look at manufacturing in Canada relative to the United States, the manufacturing sector in Canada has performed; at least in terms of employment, has done considerably better than the United States.

The other point that is made is, and I have heard examples and I have talked with people, "Lose the jobs or move into the United States." I am sure it has happened, but in terms of the aggregate numbers, that happens whatever whether we are in a recession or whether we have free trade. It has been happening for years, but other jobs are occurring in Canada or jobs are moving here. As I say, in terms of employment, we have not yet seen anything to suggest that we are into something permanent.

In terms of direct investment by Canada in the last little while, as you well know, in the late 1980s we had a very high level of foreign direct investment by Canadians abroad. Those numbers have been coming down. At the same time, in 1990, through the period we have to date, foreign direct investment in Canada has gone up; not by a whole lot, but it has gone up. So the answer to your question is that it is difficult to grasp anything, that this is as permanent as opposed to cyclical. You really have to almost move to certainly the industry level, probably the company level, in order to be able to aggregate enough cases to come to some kind of sensible solution. But it is something we are looking at very carefully.

We have sort of looked at as many numbers as we can. To answer your question, we are not sure whether we can make the statement that this recession is different in the



...nse that structural changes are occurring across manufacturing as a whole—and I will point to individual examples on either side of the argument—but for manufacturing as a whole that this is occurring, that it is a structural and permanent job loss.

**Mr Phillips:** I feel better now than I did when I came here this morning, because both you and the TD, I think, are predicting that we will come out of the recession kind of in midyear. That is far more optimistic than I have been. The numbers I had seen were that in Ontario, for about six straight years we created 135,000 jobs; 1989 was 85,000; 1990 was minus 120,000. Full-time jobs were minus 65,000 because part-time went up by 45,000 or thereabouts, and there were 10% fewer manufacturing jobs at the end of the year than at the start of the year. I feel a bit like the person who is maybe falling and being reassured that the parachute is going to open. Both you and the TD have assured us the parachute will open.

Just how important do you feel the manufacturing sector is to the economy? It is 20% of the jobs and, I have always thought, 30% of the domestic product or something like that. Is it something we need to be worried about, or is the whole world going to fewer manufacturing jobs anyway, and just let it happen?

**Mr Thomson:** From an economic perspective, whether you work in resource extraction, agriculture, manufacturing or service industry, they are all making a contribution to the economy. At issue is, are you providing the goods and services that the market demands and that you can produce efficiently and well? Canada and Ontario do have advantages in terms of manufacturing, and what I would like to see is, are we creating the conditions within our country that permit that to thrive and prosper? Frankly, I do not think we have it right in terms of providing the conditions and environment in terms of policies that would permit that to happen.

Is it necessary that we produce automobiles? The answer to that is no, if we can do something better—banking, take your pick—in terms of technology or telecommunications or software or whatever it be. If we can do that better and we can create a market for that, then that is what we should be doing. But from an economic perspective, one job is not better than another.

By the way, just to illustrate the point I was making earlier, I realized I did have a chart there and it gives you a picture of where we are in terms of manufacturing between Canada and the United States.

**Mr Phillips:** But I gather, as a percentage of the workforce, that has probably gone from 33% down to 28% or something like that.

**Mr Thomson:** Yes, something like that.

**Mr Sutherland:** First of all, I want to thank you for the lesson on international finance and money exchange markets. I have read many articles and never quite understood it, but it is a little clearer today as to what the underlying bases are. I am not afraid to admit that I am one person who has not a great understanding of economics. I am sure some of the opposition would think we have very little understanding.

**Mr Thomson:** Why do I think I am being set up here?

**Mr Sutherland:** At the same time, I want to ask a couple of specific questions about Ontario. You talked quite a bit about the national debt and the federal debt. I wonder if you could make some comment on whether you have any concerns about provincial debt at this time, whether it is the annual deficit or overall debt picture.

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Question 2 relates to the fact that the thing that irks me, not coming from the Metro Toronto area, and listening to the governor of the Bank of Canada talk about the inflation rate, that Ontario's economy was overheated and that was pushing up inflation all across, is that when Toronto's inflation rate seems to be about 1 to 1.5 percentage points ahead of the rest of the province, the entire province suffers from that fact when the Bank of Canada is reacting to that. I was wondering if you could comment whether you feel that is to some degree an overreaction or whether, as Metro goes, the rest of the province has to suffer along.

**Mr Thomson:** I sympathize with what you are saying. The Bank of Canada, as I say, has assigned responsibility for controlling inflation. It has one instrument for doing that and that is the interest rate. It only has one interest rate it can control, for a variety of reasons, and that is the 90-day Treasury bill rate.

When the Bank of Canada is setting monetary policy, it has to look at the nation as a whole and therefore sets monetary policy on the basis of the nation as a whole, not regions. Ontario, because it makes up close to 40% of the overall national economy, clearly has a major influence in terms of what are deemed to be national economic conditions.

In an appropriate environment, what we should be doing is using monetary policy and fiscal policy in tandem. Therefore, if we do have national policies that are geared at slowing down some regions of the country, whereas we have other regions, because of the disappearance of the fish stock or because of negative conditions in international grain markets affecting the west, the Maritimes or northern Ontario for a variety of reasons, the role of fiscal policy, because it has government spending, because it can be targeted directly, is to try and balance out the inequities between regions and sectors.

What has happened is that we have lost fiscal policy as a discretionary tool in this country because of the deficit. Effectively, we have no room to move in terms of the deficit. We are spending approximately \$40 billion a year on debt service by the federal government. The old story: 35% of every tax dollar you send to Ottawa is going to debt service payments. We cannot increase the deficit in a discretionary way because of the effect it might have in terms of the confidence that foreign investors have, in terms of economic policies here. Effectively, we have lost the ability to have a discretionary fiscal policy and we have to face up to that. That is the mismatch between monetary and fiscal policy that we have in our country.

**Mr Sutherland:** If I may just pick up on that, if we do not have the discretion fiscally—there seems to be this very tight monetary policy—in your opinion does it seem



then that there exists more flexibility in the monetary policy than has been demonstrated? You said you want to keep inflation under control and you want to slow down the economy. Somewhere there is that balancing between doing that and putting the economy into a total recession, is there not? I guess what I want to know is, at the end of it all, if you go too far one way and put the economy in a recession, is that worse than maybe letting the inflation rate run a little at 4% or 5% or whatever?

**Mr Thomson:** We are running an inflation rate of 4% to 5%. We are talking about having an extraordinarily tight monetary policy. The monetary policy's job is to try and contain and hopefully reduce the rate of inflation. We went through that in the early 1980s, and I hope we never get back to that kind of experience again. But on the evidence, we have not seen a monetary policy that has been overzealous in terms of reducing our inflation rate; anything but. What we are seeing is the Bank of Canada, which has as its role a responsibility to maintain a low and stable inflation environment within our country—because through other actions we have effectively reduced or made impotent fiscal policy, does that mean we have to also throw away monetary policy? Does that mean because we have rendered fiscal policy impotent, we say, "Okay, let's let the inflation rate go"? The inflation rate, if it rises, becomes a self-perpetuating movement. Clearly, if we learned anything in the latter part of the 1970s and the early 1980s, it is that higher rates of inflation lead to bad economic performance because of the speculation that takes place and also, frankly, because of the enormous swings it has in terms of wealth and income within our society which are unearned and basically arbitrary.

**Mr Sutherland:** If I may, I am just going on. My little knowledge of economics indicates, though, that the inflation rate during the last period, the late 1970s and so on, was substantially higher than the inflation rate of 5% to 6%.

**Mr Thomson:** Yes, it was.

**Mr Sutherland:** We were even talking double-digit inflation. I know the theory is you want to keep a control on it and not let it go, but it seems to me there is a little more flexibility this time around than last time. That is from my basic knowledge. Do you agree with that or not, or are there other factors?

**Mr Thomson:** To be honest with you, I would not. Maybe I am getting too old, but when I was growing up they used to call stagflation 3% inflation. Why were we having inflation of that magnitude? Now we seem to be saying 5% or 6% is okay. As I said, with 5% or 6% you still, over time, have enormous effects in terms of the level of prices and the value of money. For older people, it has a very negative impact. Also, of course, you get into a race in terms of your society as to trying to keep ahead. It also leads to a misallocation of resources such as we saw in terms of the housing market in southern Ontario, where effectively you had overinvestment in the housing market because of the sharp rise in prices, which also of course led to massive changes in terms of the pattern of interprovincial migration, which frankly was a misallocation of re-

sources taking place. Because of that kind of inflationary environment, it led to a less efficient economy.

What I think we ought to do is say, "Look, why don't we move"—I am not wedded to zero—"to somewhere where inflation doesn't become a factor any more?" We do not worry about it, whether that is 2% or 3% or 4% or 5% but certainly I do not think it is more than 5%.

As I say, just because we have rendered fiscal policy impotent, let's not throw out monetary policy just to make it a clean sweep.

**Mr Sutherland:** I am sorry, could I just get the other question about the provincial debt?

**The Chair:** We are 20 minutes over already.

**Mr Sutherland:** Fair enough then.

**The Chair:** One last question from Mrs Sullivan.

**Mrs Sullivan:** I wanted to just move back a bit and perhaps take you out of the hat that you normally wear, Mr Thomson, and look at some of the things you have talked about in your presentation, one being structural change that has occurred, partly because of adjustment and partly because of this particular recession. As we look ahead to demographic change, which may well change our requirements in housing starts, and as well over the past couple of years an extremely high level of business investment in capital which may not move on as quickly or at the same levels as they have had in the past, if you were a government and had adequate moneys to do so, where would you put stimulus? What sector would you pump money into? Or would you use money in a different way, perhaps in human resources policies?

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**Mr Thomson:** First of all, let me stress that I am a simple economist, not a politician or one who is responsible. I want to keep this to economics, not my own personal judgements about what things should be done, but one of the things I think we should be doing is not thinking about "Gee, where do we spend the money?" That is the industrial policy view. While I recognize that within my profession there are various views as to whether an industrial policy is an appropriate course for a government and a society to follow, my judgement is that probably not.

I think we are going through enormous change within our economy in Canada, not just this year but likely over the decade. I think we are going to see profound changes in terms of the economic environment. I do not think that government, using the application of all the wisdom that it has both from the civil service and from the elected representatives—I just do not believe that you are going to be able to make the best choices. I think that where you get the best choices is you create the environment where the market makes those decisions, for several reasons, not because the market is smarter.

We are talking about individuals who are making decisions. They are making mistakes and they are making good decisions and sometimes they are lucky. But what happens in the marketplace is you make those decisions, and if you are wrong, you back up. Okay? Also, you are not making one decision, you have got five people in competition making five different decisions, and one or two or



ee or hopefully all five will be successful. Then people n see what is happening with respect to that and follow it ough copying or diffusion, as the term is in economics.

Therefore, I think the market provides more of a trial-d-error and smaller-scale approach in terms of deciding the right course for your economy than government policy, because with all due respect, government policy nds to be focused on particular sectors, the more money e better sometimes, and once you have made a mistake, is tough to back out. I think the market provides a better vironment for doing that.

As I say, the private sector has got all those faults too. ou have big companies that do grandiose things. It is the rong thing to do and they recognize it too late and they e slow to back out. That happens, but what you do with e private sector is you have multiple sources of moving ead, and it is the market that will decide. So I think that e way in which it should work.

With respect to what do you do, as I say, I think you eate the environment whereby the private sector will ork. That is not a right-wing agenda. It is just saying, ook, there's no question about what proportion of re-ources government takes versus the private sector." If you ave a private sector, regardless of what resources are allo-ated to it in terms of your society, let it work. Therefore, hat you do is you try to create the environment that akes that private sector work.

What you do is, one, you have a low rate of inflation, nd two, you have a fiscal policy that is structurally bal-anced. That does not mean you have a surplus or zero very year, but over the economic cycle, you have a truly ructurally balanced fiscal position where you have a defi-icit that is zero. What you do is you create the environment at allows the private sector to work, which can be faci-ilitating change.

One of the ways of doing that is to try to encourage a et of policies that reduce the interest rate to levels that are onsistent, with a real rate of interest that is consistent with at of other countries, in particular the United States. hat you do is you provide facilities for helping the lab-ur force change in terms of the changing economic envi-onment we are facing. I am sure that there are many other policies that we could do in terms of that way, but that ould be the answer I would give to your question. I hope was not too strong.

**Mrs Sullivan:** No, I think it has been very useful to is. Thank you.

**The Chair:** I would like to thank you again for re-ponding to our invitation to come and speak to us today. I hink you opened up a huge can of worms at the end there hat some of us would have liked to have grappled with, ut our time is running out and I am sure that our next resenters will pursue some of these ideas. Thank you very uch for coming. I enjoyed your slide presentation and our graphs.

**Mr Thomson:** I forgot to mention that there is a hand-out which has much of what I have talked about and more. Thank you very much. It was a pleasure.

## ONTARIO FEDERATION OF LABOUR

**The Chair:** Our next presentation is the Ontario Fed-eration of Labour, president Gord Wilson and consultant John O'Grady. They have also responded very graciously to our invitation to speak to us today, and we thank them for that. Now I assume we are going to hear a different point of view.

**Mr Wilson:** A slightly different point of view perhaps from the previous presenter. I cannot resist the pun that I noticed during his presentation most of you were kept in the dark.

Interjection.

**Mr Wilson:** We cannot match that. We are a frugal organization with limited resources, so we cannot resort to high-tech processes. At your invitation, Mr Chairman, I cannot help but make comment on at least one aspect of the Royal Bank's presentation with regard to the exhorta-tion of marketplace policies. We should perhaps keep in mind that they have served us so well that we are in the position that we are in today in 1991, and by that I mean unfettered marketplace policy.

I want to congratulate the committee for its sensitivity in inviting obviously such diverse groups as the Royal Bank and the Ontario Federation of Labour. I do not know who the careful planner was who put us back to back today, but it might be useful to the committee to see the two opposite perspectives.

I want to thank you all for the opportunity to appear on behalf of the federation and to introduce on my right Ken Signoretti who is the executive vice-president of the feder-ation, who is appearing with me today. In our presentation, and I believe you now all have copies, I would like to focus not on the broader scope of economics but perhaps on how workers are to be dealt with within the Ontario economy with regard to what I would argue is currently a restructuring that is taking place, as opposed to the com-ments perhaps of the previous presentation.

**Wage protection:** The Ontario Federation of Labour is aware that the Ministry of Labour currently is undertaking on behalf of the government a consultation on wage pro-tection. As members of this committee are aware, that ministry circulated a consultation paper at the end of De-cember. We take this opportunity to address the wage pro-tection question for two reasons. First, a wage protection scheme will inevitably entail a provincially underwritten guarantee of benefits, and second, in all likelihood a dedi-cated tax measure will be required to fund any sensible scheme that goes beyond providing token protection.

Both of these steps involve fiscal policy. The Ontario Federation of Labour hopes that the government will use the occasion of its 1991-92 budget to spell out in particular the details of its dedicated tax measure.

The consultation paper released by the government at the end of December was frankly disappointing. We hope that it does not signal the manner in which the government intends to handle the wage protection question. As mem-bers of this committee will recall, wage protection was one of the first policy issues on which the government



announced its intention to move quickly and with serious intent.

The philosophical position of the Ontario Federation of Labour is quite simple: When benefits and entitlements are conferred on workers by statute, then the access to those benefits and entitlements must be certain and assured. The reality, of course, is quite different. In a sizeable proportion of small employer insolvencies, workers do not receive the full extent of their legislated entitlements to back wages, vacation pay, termination notice and severance pay. Among insolvent employers with fewer than 50 employees, some estimates suggest that 40% may fail to fulfil their legislated obligations to their employees.

The relevant policy question is not which legislated benefits should be ensured by the provincial government; rather, the relevant policy question is how does government ensure that all benefits and entitlements that are intended to be universal will in fact be received by the workers. Surely it would be difficult to improve termination and severance benefits as measures to deal with recession and economic restructuring when a large proportion of workers do not even receive their current statutory entitlements.

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There are four, and we would suggest only four, ways to guarantee a statutory entitlement: First, pre-funding of benefits through a regulated trust fund, as in the manner of pension plans, usually backed up by a provincially underwritten guarantee fund; second, mandatory private insurance; third, social insurance in which a guarantee fund is financed through a dedicated tax measure or premium, such as UI or CPP; and fourth, a guarantee fund replenished by transfers from the province's consolidated revenue fund without any explicit dedicated tax measure.

The net claims on any guarantee fund can be reduced by two supplementary measures. The first is by according statutory wage and benefit claims a precedence over other unsatisfied creditors. The second is by increasing the personal liability of directors and officers of corporations.

The government's own estimates of the cost of guaranteeing all legislated entitlements, for example, back wages, vacation pay, termination and severance pay, is just under one tenth of 1% of payroll, and this is hardly an onerous burden.

**Mr Kwinter:** Do you know what the real number would be?

**Mr Wilson:** The total number? I would have to go back to the office and check my notes, but \$150, \$170.

We urge this committee to recommend to the Treasurer: First, that the government adopt a principle that when benefits and entitlements are conferred on workers by statute, then the access to those benefits and entitlements must be certain and assured; second, that the government adopt a social insurance solution to the problem of wage protection, relying on supplementary measures related to precedence of claim and/or director's liability to reduce net claims on the guaranteed fund.

Let me just speak to that second point for a moment. It is our view, strangely enough upon advice from the banking community, that what would likely happen with regard

to directors is they would simply secure more private insurance to cover their liability.

**Countercyclical measures:** Prior to prorogation the government announced the details of the government throne speech commitment to inject new demand into the economy through public works spending. The Ontario Federation of Labour applauds this action. We agree with the government that spending on the construction sector is probably the most effective type of countercyclical spending.

Since the government announced its countercyclical fiscal measures three developments have occurred:

First, it is now clear that the recessionary momentum is greater than expected, even in the fall of last year. This is especially evident in the decline in retail sales in December.

Second, responding to this more recent sharp downturn in the economy, the province of Quebec has adopted significant countercyclical measures. The Quebec government estimates that its measures will have the net effect of injecting final demand equal to 1% of gross provincial product. The measures announced by Quebec are substantially greater than those announced by Ontario.

Third, the outbreak of hostilities in the Gulf has added a new element of uncertainty that will probably cause both families and businesses to defer major spending commitments. That is greatly speculative, I admit.

On the positive side, one notes a modest easing of tight interest rates, although the Bank of Canada apparently continues to pursue its high dollar policy.

The OFL urges this committee to recommend to the Treasurer that he reassess the countercyclical measures already announced with a view to increasing the scale of provincially supported spending on social housing and public works. The scale of Ontario's countercyclical measures should be approximately commensurate with those adopted by the government of Quebec.

Measures to deal with the structural side of the recession: The recession which is currently under way in Ontario has a much more significant structural component than did the previous recession in 1981-82. The Minister of Labour's data on plant closures give some indication of the structural dimension to the recession.

With regard to permanent layoffs affecting 50 or more employees, I draw your attention to the chart before you in particular 1982.

If you look at it, there were layoffs of just under 10,000 due to plant closures. Layoffs due to all causes were 46,047. The trigger figure is the column on the right: plant closure layoffs as a percentage of all layoffs, 21.5%. In 1990 that number is now 48.3%. I would rather use 1990 than either 1987, 1988 or 1989, because of the number of workers involved.

What I am saying is that we are clearly seeing a pattern evolve where a much higher percentage of the workforce is now being laid off and out of work as a result of closures which are in effect structural changes in the economy. Those jobs will not be there for people to go back to if and when the economy picks up or, more correctly, when the economy recycles itself and does pick up.



The above table tells us that in terms of the province's permanent layoff indicator, the current recession is already as severe as the 1982 recession, which incidentally is the worst recession since the 1930 Depression. More important, the layoff indicator tells us that a much higher proportion of job loss is attributable to permanent and complete plant closures.

The Ontario recession clearly has a much greater structural component to it than was the case in 1981-82. In that regard, the Ontario recession will be similar to the structural recession experienced by many states in the northeast and midwest of the United States in the period 1979 through 1983. This was the period in which the term "rust-belt" entered popular economic discourse.

The demand management types of measures that are available to deal with a cyclical recession are far less effective when confronting a structural recession. In a structural recession, workers are not called back to their former jobs. The signature of a structural recession is a growing pool of long-term unemployed workers, many of whom are older workers whose seniority could not protect them against layoffs caused by plant closures. Seniority, of course, has a currency when involved in a closure. A structural recession requires a major labour adjustment strategy. Just now ill equipped Canada and Ontario are to deal with a structural recession is evidenced by a study published by Statistics Canada. The study examined the labour market experience of roughly one million workers who were permanently laid off during the period 1981-84.

The highlights of that study are as follows: the largest single cause of permanent job loss was plant closure or relocation—36% of the total; 13% of these laid-off workers permanently exited the labour force; 15% of these workers were able to find only part-time employment; of the 72% of these workers who found full-time re-employment, one fifth were laid off again by 1986; 45% of workers obtaining re-employment suffered a wage loss, and this loss averaged approximately 28%; only 17% of workers took retraining, and of these only 5% identified that training as government-sponsored.

The source was *Job Loss and Labour Market Adjustment in the Canadian Economy* by Picot and Wannell. These data are an indictment of labour market adjustment in Canada. Moreover, structural pressures on the labour market are going to be greater in 1991, given the higher incidence of closures.

The OFL believes that the government must spell out a strategy to deal with the structural side of the current recession. The experience of the Canadian Steel Trades Employment Congress stands in marked contrast to the pattern revealed by the Statistics Canada study. CSTECH is an example of active labour market policies. It points to the scope for breaking out of the Canadian pattern: 62% of laid-off steel industry workers take retraining; labour force exit involves roughly 20% of the laid-off workers, and of those who remain in the labour force, 95% obtained re-employment; the wage loss of those who are re-employed following training averages 5% to 10%. Prior to the implementation of CSTECH programs, real wage loss averaged

over 30% consistently with the general pattern revealed by Statistics Canada.

If one were to assume that approximately half of the unemployment caused by the present recession is structural, that the six-month retraining experience of CSTECH is a useful benchmark and that Canada Employment and Immigration Commission will co-operate with a program that gives greater emphasis to retraining—as they have done, incidentally, with CSTECH in waiving the rules—then the likely costs of active labour market programs would be in the order of 1.5% of the payroll base. This admittedly back-of-the-envelope estimate is broadly consistent, however, with the experience of northern Europe.

We would urge this committee to recommend to the Treasurer that Ontario move towards the implementation of active labour market adjustment programs. This will entail Ontario assuming an economic role in a field in which it has hitherto deferred to the federal government. The Ontario commitment to active labour market policies should be implemented in stages, but it should be anticipated that the fully articulated adjustment programs will entail costs equal to 1.5% of the payroll base. Estimating costs in this manner does not imply that payroll taxes should be the principal fiscal instrument to finance these programs.

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The OFL also believes that addressing the restructuring problem in this province will require active capital market strategies. In particular, we believe this province can ill afford to export its pension capital. It is surely a bizarre irony that the pension fund savings of workers are invested abroad by pension managers to the detriment of the economic security and future of the very workers who created these pools of savings. The only restriction on the export of pension capital is the Revenue Canada regulations that limit the proportion of a pension plan that can be invested abroad. This limit was set at 10% but is rising under the current federal government in stages to 20%.

Ontario has a residual right under the Pension Benefits Act to regulate the investment policies of pension funds. In our view, the Ontario government should exercise this residual authority. Additionally, the government should establish specialized investment vehicles for facilitating the diversified investment of pension funds into industrial restructuring.

Finally, the Ontario government should recognize the direct link between investment priorities and the control of pension funds. Indeed, to the extent that the government strengthens the voice of unions and employees in the management of their pension system, it will reduce the regulatory burden on the Pension Commission of Ontario to actively monitor investment policies.

The OFL urges this committee to recommend to the Treasurer that the 1991-92 budget announce the government's intention to more actively regulate the investment policies of pension funds and, in particular, to limit their ability to invest outside of Canada. It would also be appropriate for the government to use the budget speech to signal its intention to reform the governance of the employer-based pension system.



4. Measures to reduce future vulnerability to recession: The OFL recognizes that measures to deal with the immediate recession must be the top priority for the 1991-92 budget. However, it is also important for the government to direct its attention to reducing the vulnerability of the Ontario economy to recession. We are cognizant of the limitations on both a relatively small economy and a provincial government. Nevertheless, there are two areas in which we believe the government should initiate policy development.

The first policy area which the government should be examining is the propensity for economic expansion to be based on credit. The increased reliance on credit by both families and businesses is one of the important distinguishing characteristics of the 1980s economic expansion. It is probably related to financial deregulation. Excessive reliance on credit introduces a significant fragility to economic growth. When businesses or families experience an erosion of their confidence, they respond by extinguishing some of their debt. This increases the recessionary momentum. The most important segment of the financial sector is obviously the banking system. Banking, of course, is in federal jurisdiction. Nevertheless, the province does have some leverage over the financial system through its regulation of the trust and credit union segments of the financial system. The OFL believes that the policy of wholesale deregulation of the financial sector has been of dubious economic value. We believe the government should reappraise the policy of deregulation which it inherited. We also believe the proposed Fair Tax Commission should be asked to examine the economic impact of the incentives to reliance on credit by businesses.

The second area of policy development which the OFL urges the government to pursue is the adoption of reserve funds paralleling the Swedish model. The Swedish reserve funds allow companies to set aside in tax-sheltered funds a certain proportion of their profits. These funds can then be drawn down without incurring a tax liability if they are used for an approved countercyclical purpose related either to investment or to labour force development. The reserve funds introduce into the Swedish economy an important countercyclical device. Given the fiscal restraints on governments, it may be desirable to facilitate the emergence of other countercyclical instruments such as reserve funds. Such reserve funds could be especially useful in resource-based regions of the province where the economic cycle is typically more severe.

In closing, the federation appreciates the opportunity which it has been afforded to present its recommendations to this committee for the 1991-92 budget, and we stand prepared to respond to any questions that may be asked by members of the committee.

**Mr Kwinter:** I have a couple of questions. I want to address one of your recommendations; "The scale of Ontario's countercyclical measures should be approximately commensurate with those adopted by the government of Quebec."

If we were to use 1% of the gross provincial product, that would be approximately \$2.5 billion. The government had announced that as a measure to deal with the recession, it

was going to inject \$700 million into the creation of jobs in the way of public utilities, roads and things of that kind. The feeling is that in this fiscal period, even though \$700 million is dedicated they will use a very small fraction of that by the time the budget comes around. I think the estimate was—what?—\$40 million, somewhere around there. What you are going to have is a \$700-million commitment, of which very little—I am not faulting the government; it is just a matter of having the ability to put this thing into effect.

It would be exactly the same if you were to suddenly find you have a \$2.5-billion fund that has to be implemented. My feeling is that by the time you got it organized, by the time you decided which projects you wanted to fund, you would be well into the recovery period and you would have taken an incredible amount of capital out of the system with very little impact on addressing the problem. Do you have any comments on that?

**Mr Wilson:** I cannot resist one. If they had a little more money, if they knew what they had when they opened the door to the shop—

**Mr Phillips:** Easy, easy.

**Mr Wilson:** Okay, I will be nice. It is a matter of public record, anyway.

I am using the wrong title, but the Canadian federation of mayors and municipalities did a rather extensive study about three years ago in which it called for considerable expenditure across this country as required, in the neighbourhood of \$5 billion to \$7 billion, if I recall, to restore Canada's infrastructure: roads, sewers, bridges. A lot of that work has already been done. If you take a look at the city of Toronto, the sewer system in many parts of the city is well over 100 years old and, as engineers would advise you, is rapidly approaching the point where a decision will have to be made about what is going to be done about the infrastructure. So that money can be dedicated quickly, in the first instance.

The other aspect of their national study which I thought was intriguing was that it estimated that 68 cents of every dollar spent by government returns to government in some form of tax or other, so there is a pretty darn good investment. I believe we said in our comments that it should be introduced in stages. We recognize that you cannot wait an expenditure—as you have estimated, \$2.5 billion in one month as laid out—happen within the next six or eight months. But I think it is a philosophical question in part that people have to address. In a period such as we find ourselves, the recession and the retraction of the economy, do we utilize what I would argue has been proven to be effective in the past, that is, a considerable amount of dollars dedicated to social spending, for the reasons we spoke about earlier, not only return to government but also through savings the government would have with regard to expenditures it does not have to make because people are unemployed and other matters such as that?

**Mr Kwinter:** I have one other question. There is another recommendation you make. It has to do with the whole issue of pension funds. I am sure I do not have to remind you that I used to be the minister responsible for



sions. Your recommendation is that "the government use the budget speech to signal its intention to reform the governance of the employer-based pension system." The biggest problem, and it is still out there—it certainly is here with the OSSTF with regard to the teachers' pension fund—is responsibility. Certainly organized labour has taken the position that it would like to see some sharing of responsibility for the administration of the pension funds, but basically it wants someone other than itself to guarantee the solvency of it. That is certainly the big hangup with the teachers. I do not know what the position of the current government is, but the previous government said: "If you want it, you can have it, but don't count on us to guarantee it. If we have to guarantee it, then we want to control it. If you want to control it, then you guarantee it or take your chances."

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This is exactly the same situation. You know we have had some very serious discussion as to who owns the surplus and all of that. The standard response you get from management is: "We manage it. If there is a surplus we have created it; if there is a deficit we have to make it up. If you want to manage it, then you have to share that same burden of responsibility."

That has been, in my opinion—certainly during the time I had responsibility for it—the major problem we had in coming to terms. I think most fairminded people would say: "Sure, you guys are putting in money, you should have some say. But as long as we have the responsibility, when we can't be manoeuvred into the position where you're making decisions that may impact on us negatively, because you don't have the responsibility of picking up any of the shortfall and we do." Do you have any comments on that?

**Mr Wilson:** First, I have a question I would like to ask, because I am not familiar, as you would be as the Minister, about the particulars of the teachers' pension fund. Does it meet the full solvency and funding requirements?

**Mr Kwinter:** Yes. What had happened is that, I think it was in 1975, the then government in a sop—that is the word I can use—during an election agreed to fully index the pension fund. What they did not do was provide the commensurate financing to do it. As a result, since 1975 there was an unfunded liability that actuaries had a look at and said, "There is a staggering unfunded liability." Barbara, you may know the amount.

**Mrs Sullivan:** It is \$25 million.

**Mr Kwinter:** No, no, it is way up around \$800 million to \$900 million. By the year 2010, I think it was, the actuaries felt that unless something was done to put that on a sound actuarial basis, they were going to run out of money. In the year 2010 the teachers would not have any money in their fund to take care of the obligations of those retirees. The actuaries said it required a 2% increase in contributions.

The Treasurer said: "We can make a decision. We can either let it go and let whoever is around in the year 2010 deal with it, or we can put it on a proper basis." The

proposal made to the teachers—I am not trying to be political; this is what happened, and they have a different interpretation, of course—was: "We, as the government of the day, will pick up all of the unfunded liability. We will put in an additional 1%, you put in an additional 1%"—which would not be used for the accumulated unfunded liability but to make it solvent—"and on that basis we will guarantee the solvency of that fund."

The teachers' position was: "If we have to put in more money, then we have to get something for it, because right now we have a plan that's fully indexed. You guys have the commitment and you're going to have to fund it. If you want us to put more money in, then we have to get something for it." One of the things they wanted is to be able to control. They wanted to be able to say, "It's our money and we don't think it has been administered properly and we want to control it."

The Treasurer of the day said: "Fine. If you want to control it, then you have to take responsibility for it. We can't let you control it with us guaranteeing it."

That is the same thing that happens in most of these, whether it is organized labour or unorganized labour—

**Mr Wilson:** No unorganized labour.

**Mr Kwinter:** Whatever. If anyone who has a pension plan says, "We want to be able to take some control of the pension funds," the immediate response, whether it be government or management, is, "If you want to share the responsibility of administering it, then you must also share the responsibility of any negative impacts of those decisions." Usually, the response is: "No, that isn't what we want. You take the responsibility. If there are any deficits, you pick them up. But because it's our money, and we look upon this as deferred wages"—you know that whole argument. I am just curious to know what your response is.

**Mr Wilson:** Let me comment first from a teacher's perspective. I admit that I am not a teacher and really have no right, but you asked me the question and I will try to respond to it. Were I a teacher, I would interpret the events with regard to future liability that the person who made the promise, the government, was now saying I had to pay for it. It was not the teachers who agreed in 1975; it was the government of Ontario, the way you related the situation, who said, "We're now going to provide indexing." That does not mean indexing just from the point 1980 backwards or 1990 backwards or 1995 backwards. That means funding, which includes with it obviously full funding not only in future credits but also for unfunded liability for past service. So I would respond, I would think, much in the same fashion as the teachers, saying, "It's your promise and now you want me to help you pay for your promise." That is from a teacher's perspective.

Second, I remember the arguments generated by employers around the very lengthy hearings held with respect to the Friedland commission, where this issue was front and foremost. I believe the most constant argument advanced by employers relative to surplus ownership was risk. It was argued, as you have said, that, "We take the risk and therefore if there's a downside we have to pay for it."



But when you looked at the numbers were worked up around the Friedland commission research, it was either from the period 1940 forward or from the period 1945 forward, to that year—and that is three years ago—there was only one year in which pension funds found themselves in a deficit position, and it was only minor. The reality was that pension fund surpluses were a transfer of assets away from those who had already retired and lost purchasing power, as surpluses were simply a reflection of inflation rates which were also reflected in interest rates. What you had was current retirees on fixed incomes or non-indexed pensions seeing an erosion of their benefit level and a direct transfer of that to the income of the fund, which employers then said became theirs because it was now a surplus, it was over the actuarial projections.

I want to tell you we argued with that. We did not think that was fair or kosher and still do not. With regard to the governance of pension funds, what I am trying to signal in our proposal today, Kenny and I, is that we see a possible avenue of alternative capital to allow this province to be utilized, with the proper safeguards, as investment capital in some form or other, which would generate upward movement in the economy and strengthen it and at the same time give you this countervailing pool that would allow you to deal with those who come from other shores to Canada and say, "We will invest in Ontario and this is what we want." You would be in a position to say: "We welcome you to Ontario. These are what our rules are. If you don't like it, I'm sorry, we can't cut a deal, goodbye. We'll use this over here."

Pension capital generated along with community investment funds—I would argue before this committee that if you were to say to people in northern Ontario and many places where there are single-, two- or three-industry towns, that were they given the ability and the encouragement to develop community investment funds or RRSPs, for example, rather than putting it in a bank instrument they would put it in a mutual fund dedicated to that community, not much different from the greater Vancouver experiment, and say that those funds could be utilized for investment in their community, my guess is that they would opt for that.

I would guess that workers would feel more secure that their funds were being used to generate economic activity within Ontario and within this country than they do by finding out that their funds and pension funds have been utilized in east Asia to provide facilities that are going to erode their job security in this province. That is what that suggestion is all about.

But we cannot get to that because it is not yet recognized in the law that plan participants, organized workers, middle management people and others have equal governance over the funds as the plan's sponsors.

This is my final point. I can tell you that during the whole Friedland debate, and this is the God's truth, I had numerous calls—I did not keep a record of how many, but obviously quite a few—from people who were middle management people in manufacturing and retail, in the service sector and the banking sector, who belonged to pension plans and were saying to me, "I can't say anything

publicly about this, but you guys can and keep it up, cause we're with you."

**Mr Kwinter:** Another problem is that Ontario 37% of the workforce in Canada. We have 70% of private pension plans. Private pension plans are not mandatory, they are voluntary.

**Mr Wilson:** About one third of the workforce pension plans.

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**Mr Kwinter:** But as I say, of the pension plans there are there, 70% of all the private pension plans in Canada are in Ontario. In order to make this really work you would have to make pension plans mandatory, because otherwise you have some people being able to benefit and other people not and you are penalizing the good guys opposed to the bad guys. The point I am making is that the more onerous you make the governance of a pension plan when it is not mandatory and is voluntary—instead of having a defined benefit plan, they say: "Who needs this? Who needs all this sort of hassle of having to sit down and do all this? We're going to go to a purchase money plan."

**Mr Wilson:** They did the same thing with income tax when they started—we found ways to deal with them.

**Mr Kwinter:** That is the final thing. How do you deal with it?

**Mr Wilson:** You find ways to deal with it in the same way you do on the Income Tax Act. You can introduce regulation, or if necessary legislation to deal with the kinds of situations. I do not think that anybody creates a pension plan as a plan sponsor without giving some consideration to how their offer or their situation fits with the competitive mold, when they are competing for services with people who work in their enterprise.

Pension plans in the organized worker sector have somewhat different bent to them, but relatively they are the same thing. They are negotiated and we have always looked upon them as a deferred wage. They are counted as part of the package when they are negotiated. The employer gets credit for that in the package calculation in terms of its argument in trying to be competitive within the industry. I do not see any conflict there; I really do not.

**Mr Kwinter:** The conflict I see is that when you have a defined benefit plan, it is a promise. It is a promise to the worker that when he retires he is going to get X. When there is a defined payment plan, all that says is: "You put in X dollars. We'll put in X dollars. It will be administered and if there is money at the end, good luck to you, and if there isn't, that's too bad."

**Mr Wilson:** Let me give you as an example one of the larger crown corporations, Ontario Hydro, which sits down with surpluses that have been generated and dedicates an amount of that as an increase in inflation recognition factor for those people who are currently on retirement. They also use part of that surplus to generate a higher level of benefit for those people who are currently in active service. Then they also hold a portion of that back in reserve.

That pension plan has not gone broke. I would suggest to you that both the union and the employer in that situation



ow fully what they are doing. All I am suggesting to you another avenue of the assets of Ontario Hydro's pension n. I have not got it with me. I can certainly find out ere they are invested, but it would seem to me that we ould want to take advantage of giving people the oppor- nity to be able to invest those funds, and they are vast in s province, in Ontario and in Canada, as opposed to ipping them off to southeast Asia.

The problem we have is that the money managers, the nsion fund managers, have a fiduciary responsibility ich says they are required to bring the highest return ssible within group investments. So now when we have owed the federal ceiling to increase on a threshold up to %, that gives them more opportunity to play the dollar arkets out there, but all of that has a negative effect in al in the end upon us. We have the cases of examples, o that I am aware of, where workers' pension funds in ntario have been invested offshore to build a duplicate ility which closed the one in Ontario. That is absolutely, th great respect, asinine.

**The Chair:** Before moving on, I would like to indi- te that having been involved in the pension debate with e teachers, it is a little more complex than what we ard. There are some very serious disagreements between e federation and the government. I am not going to get to it, but actuarial projections differed from the federa- on and from the government and created a huge differ- ce in terms of what money would be allocated.

**Mrs Sullivan:** I am not going to make a political tement before I go into my question. I have been inter- ted for a long time actually, Gord, in the kinds of propos- s that I read about first in the newspaper the other day. I ink you had a news conference or something on your ension proposals. If we look back at the history of Que- ec, we see what kinds of very interesting changes they ade in their economy through the pooling of capital ough the caisses populaires. In fact, I do not find your oposals coming from any political spectrum, if you like.

In my view, Michael Wilson has already recognized e potential of using the investment pool of, for instance, OMERS, in which we must invest every day \$2 million to the markets. Wilson has introduced a program through hich capital pools such as OMERS or other pension lans can place their funding through venture capitalists nto private sector operations, and they do. They have been ery effective in moving emerging companies into being rviving and growing companies.

**Mr Wilson:** Barbara, if I can, the current private sec- or pension plans had no restrictions.

**Mrs Sullivan:** No, I know. One of the things I am ayng is that I am interested in seeing additional dialogue n this area at the provincial level, seeing where and if the federal program, which has proven to be successful for merging companies, can be balanced or whatever. I do ot think that in this next budget—who knows what the easury will come up with? I just do not see this becom- g something that can be a major part of this budget, ecause it seems to me that there has to be a lot more iew of this situation.

One of the areas that has concerned me about the pro- posal, both in terms of what you said today and in the news conference that was reported last week, is where the return on investment would come from for the pension plan, and there must be a return on investment, if the investment was in labour adjustment programs. If that capital was being moved into labour adjustment programs, where does the ROI come from for the pension plan, and if there is no ROI then what would the position of the Ontario government be in terms of providing a guarantee of funds going back into the plan or in terms of working and directing those labour adjustment programs?

**Mr Wilson:** I think there are two things crossing over here. I do not think we suggested nor did we talk today about pension fund investment in labour market programs in the sense of labour adjustment. What we talked about was economic labour market policies on the one hand, which also can be complemented, for example, although I did not say it specifically, with community development funds. That is where some moneys could be spent. You have to change the rules. The rules have changed out there, so we have to be concurrent with that, be able to get some of our objectives in Ontario and, strengthening our economy, be able to change some of the old rules under which we operated.

One of them is the fiduciary responsibility, as an example, where you might say to pension fund managers in this province—not only the question of restriction of overseas investment—"We may relieve you 4%, 5%, 10%, 12% or 15%"—I do not know what the number is; we would have to sort that out—"of those funds in that pension fund," which could be invested in some form of social investment; for example, affordable housing.

It may not kick an immediate rate of return that would be equal to the highest private market rate of return, but you are only dealing with a small percentage of the funds. Even if you took that amount, it has a considerable impact on an economy like ours, particularly if they were co-ventures where the municipality or the province is sitting on land and is prepared to get involved in processes like this. This is how you could really rev it up.

There would be guarantees for the pension fund, because the return on those mortgages, assumably, would be at least equal to one or two points under what the investor—I had better be careful. It would be less than what you could get in stocks and bonds in most cases, but not all cases. If you averaged it out over 20 years, you may be trailing three points on the private market, but only for a percentage of the funds. In return for that you are giving people access to a commodity that they might not otherwise have, including some people who are participants in that pension fund, so there is a balancing act there.

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The other thing is that I think I make the argument of restructuring and I really do believe it, and for another reason other than the arguments around the trade agreement. If you look at what is taking place in the world today, the US is the largest debtor nation in the world. They are attempting to redress that debt. Part of that strategy



is the trade agreement with Canada and part of it is their import and export arrangements with countries like Japan and Germany where they are going to start calling in chits and already have. They have a serious problem and have to address it. Number one for them is going to be them.

Being aware of that, I would suggest to you that the numbers we recount in our submission can be measured with some validity in that there is a restructuring going on, part of which is a response to the US's position in trying to address its own deficit. That is why you are seeing some multinational corporations, US-based, moving operations out of Canada. What allowed them to do it now is the trade agreement, which now lets them back in, where before they might not have under other trading arrangements that existed prior to the trade deal. You are familiar with all that argument anyway.

If that is true, then we have to start changing the approaches we have had traditionally in how we attract investment to this province. One of the ways you do it is to set up a countervailing pool of capital, not maybe sufficient yet, but the Caisse de dépôt is a classic example where they quite frankly have been able to do it, to generate sufficient capital, admittedly around a cultural recognition that we cannot take advantage of in the same way as Quebecers do. But maybe we can find that single force in Ontario that unites people around an identity with Ontario much in the same way the cultural identity has been in Quebec. If we created a Caisse de dépôt in Ontario with the same allegiance that the Caisse de dépôt has to Quebec, then you can say to multinationals: "You want into our markets?"—if you can deal with the trade agreement in another way—"Then this is what our deal is. If you don't like it, have fun."

**Mrs Sullivan:** Can I just ask if the OFL has looked at the federal program in terms of the pension fund investments. Basically what happens is that through the venture capitalists there are equity investments made that are singularly important in that it is not debt that is going into the company.

**Mr Wilson:** You have to be careful, and I recognize the point that with pension funds you are dealing with people's future livelihoods. That is why I argued you can dedicate funds to certain sectors in the economy which are safe and at the same time provide a social good for the entire economy. I really do not see venture capital in the way that term is normally applied being very attractive to pension funds if you are concerned about security, but there are, in some community development situations, funds that can be developed for that community where you can make a go in a venture capital sense of investment; for example, secondary industry around mining, where you can become quite competitive. You have the workforce there and you can generate the growth of communities rather than the decline.

You would deal in those kinds of activities, but you would have to be very careful about it. You cannot just say, "Here's a licence to go out and invest pension funds holus bolus." That is why I tried to say a more prudent course is to begin with a percentage of the fund being dedicated.

**Mrs Sullivan:** That is what the federal program does.

**Mr Wilson:** I cannot understand the federal government's reasons, then, for going the other way on foreign investing; I really cannot. If they are trying to do that, to encourage investment in Canada, why are they making it easier to invest more money—not easier, allowing pension fund managers to invest more money outside the country? They are in opposite directions.

**Mrs Sullivan:** They also make money through emerging companies, substantial money, because emerging companies have to pay higher prices than, say, the existing stable companies with traditional access to markets.

**The Chair:** Mr Phillips?

**Mr Wilson:** Wait a minute, Gerry. I make speech for nothing; I charge for questions.

**Mr Phillips:** How about answers? We have heard today from a couple of banks that are more optimistic than some of us felt coming in here. I have about five points, Gord. You could say you only get one question.

First, I would not mind the OFL's point of view when we may come out of the recession. Second, I think some of us felt that perhaps there were more jobs moving elsewhere, manufacturing jobs, than the banks seemed to think. I would like your thoughts on whether you have a handle on that and whether we should be concerned about it. The third thing is that two of your big recommendations, the wage protection fund and the labour adjustment are in round terms—I do not know—\$200 million and the other is \$1 billion. You mentioned payroll tax in both cases. Is it tied to the payroll tax? Is it a quid pro quo in your mind or is it, "We've got to do this," and one suggestion is to fund it through payroll?

Let me just finish off here. The fourth one: Your pension thoughts, I think, are extremely interesting. The philosophical argument that I get into down the road of pensions is that I think employees feel they could take their money now in salary or defer their salaries into pension. I think down the road, increasingly, individuals will see their pension as their money—no one else's, but their money. Therefore, your recommendation, which is to tell them that they must take a part of their money and put into a lower rated return, will it wash, I am saying, with employees down the road?

The last one: I did not see anywhere in here, in terms of the recession material or the economic outlook, recommendations, as we go through this restructuring, that would encourage and help employees to acquire firms. I thought that, just as the pension thing was here, we must have seen some recommendations from the OFL in terms of that being helpful.

**Mr Wilson:** First, we might comment on is the rate of return. Do not overexaggerate it, because what I said was that if you took a 20-year frame, given the rises and falls in the market, a stable investment in real estate is likely to yield substantially not much less. It is going to be minimal under the marketplace, I would argue, if you take a 20-year frame.



If you are talking about employee stock ownership plans, the answer would be no, we are not interested in it. You have equity in the company, you have investment in the company but you do not have any control over it. If you are talking about some of the experiments that have been engaged in in the United States and one or two in Canada, where effectively a group of employees bought, controlled and operated a fund, yes, there is some interest in some segments of the membership of my federation. There is not an interest in others. It becomes an ideological fighting point in many ways.

**Mr Phillips:** That is why it is not here, I guess.

**Mr Wilson:** You might say that we are not unlike governments, trying to find the best solution for every-  
body.

**Mrs Sullivan:** He was not elected on that platform.

**Mr Phillips:** The recession in the manufacturing—

**Mr Wilson:** It is interesting. The person shall go unnamed who used to be very close to the Prime Minister is now the chief executive officer of Campeau Corp. I checked numbers with him yesterday at a function I just happened to be at and he was at. Our projection together is that I do not see any upturn in the economy until probably the third and fourth quarter of 1992. And by the way, the prediction was a prime rate of about 10.25% by the end of the year, our bank rate, a prime rate.

The other was the significant difference between 1982-83 and our coming out of ours. The 1982-83 line was almost straight up. It was a quick recovery and it was a fast and strong recovery. This one will linger like a shallow up bowl. For a long period of time we will have a very low growth factor. Part of that is the restructuring application.

If you look at the analogy we made with the 1979-83 period in the United States, they went through a structural impact upon their economy while our recession in 1982 was a reaction to their restructuring. Ours was cyclical, therefore—for that and other reasons. But if you went down to the bottom of the pot, you would probably find that that was the most substantial reason. What is different now is that they have undergone their restructuring. The auto industry was carved by a third, the steel industry was cut in half. A great amount of their manufacturing base was severely restructured. We went through a cyclical turn. Now we see the exact opposite. We are undergoing the restructuring and they are in a cyclical downturn. They are addressing it through their policies to deal with their deficit and the recovery of their balance of payments deficit.

I see this recession in Ontario as not one that is going to be enjoyable for anybody, particularly the workers. Why did we specifically focus on the points that we focused on? Because the people who are the most severely hurt are those people at the lower end of the income scale or those people who have no control over the decisions that impact upon them, that is, either workers in unions or workers not in unions. The reality of it now is that unions exert very little control over those investment decisions by, particularly, multinational corporations as to whether or not they want to remain in Ontario and produce or whether they

want to go somewhere else. So what we are seeking is, in the budget, some indication of moving to protections for those people.

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**Mr Phillips:** One question I do not think you answered, at least directly is just that the presentation from the two banks today left me the impression that once we start out of the recession, which they think we will start out in midyear, and tramp on the accelerator the manufacturing jobs come back.

**Mr Wilson:** To where?

**Mr Phillips:** That is my point. I guess their point was that they come back to the plants that right now are still there and will just gear up. I am interested in your perspective.

**Mr Wilson:** Where are the jobs? We are not seeing any influx of—

**Mr Phillips:** I am asking the question.

**Mr Wilson:** You have also to remember, I think, in the context of whom you heard it from, that banks never go through a recession. They win on the wave up and they win in a trough too.

**Mr Phillips:** They just plain win.

**Mr Wilson:** That is right. I think that message was conveyed to them, if I recall, by the Premier about a week ago, with great joy and enthusiasm throughout the retail and manufacturing sector of employers, who said: "Yes, that's right. Why are we always taking the going?" not to mention workers on mortgages and the rest of it.

I do not see where the replacement of jobs will be. If we drift to a larger measure of part-time and service sector jobs, yes there will be jobs. If you are at a CEIC you count job for job, so it does not matter, to use the popular vernacular, whether you are flipping hamburgers in McDonald's or whether you are a highly paid industrial worker. It is a job in their stats. Where it shows up is how many small businesses go belly up because workers do not have decent jobs that pay good money that allow them to spend in the local economy and in the Ontario economy. Therefore, I do not see where all of these jobs are going to be replaced as value jobs. The bank may be looking at numbers which talk about part-time jobs, that talk about accumulation of part-time-full-time jobs in the retail sector or jobs in the service sector, all of which are paid considerably less than the jobs we are losing. What we are losing in this province, by and large, is the well-paid industrial job that has been the mainstay of many of our communities. They are not going to be replaced.

**Mr Phillips:** Just on the last, on the payroll tax, how tied are you, in your recommendations, to that being funded by payroll taxes?

**Mr Wilson:** You are talking about the wage protection fund?

**Mr Phillips:** Both of them.

**Mr Wilson:** You could do it by that or by a combination of the other measures we have proposed. Why we suggested the liability tax—I will be quick on it, okay?—is that we have had experiences, particularly in the garment

industry, where company A, owned by Mr B, closes down and then two weeks later he opens company C down the street. It is essentially the same business. The workers are out of luck. Why? Because the company went insolvent. Insolvency means everything you have is an asset. It is already pledged and so there is nothing left for the workers to recover. But it does not prevent the owner and/or the directorship from moving down the street and opening up another operation. I said to you we did a little checking with some people we know in the banking industry. We asked how directors would react to that. They said they would simply increase their directors' liabilities through private insurance.

So there is any number of vehicles you could use. Then the insurance companies would have to bargain.

**Mrs Sullivan:** Yes, I just think if you are sure that they could, given the extra liability insurance that is now required and the pollution protection and so on—

**The Chair:** Come on. We are running a little late.

**Mrs Sullivan:** It is optimistic.

**Mr Jamison:** Are we finished? Okay. An interesting part of your submission, Mr Wilson: You allude to a structural recession requiring a major labour adjustment strategy. Further on in your submission you mentioned one particular scheme or plan that went forward during the steel recession, the CSTEAC.

My question really is whether or not you could explain further what that particular plan was about and, secondary to that, what we as a government can do to assure the development of skills that are required for the future. My opinion is that we cannot do it alone. It is going to take a partnership approach. I would be interested in hearing your point of view on that.

**Mr Wilson:** I guess the short and sweet of it is that Stelco and other steel companies understood that they were going to undergo a restructuring. The unions' reaction to that was, "We have two choices, we can either be in the dialogue or out of it, but it is going to happen anyway, so we are far better to be in it."

Admittedly, the CSTEAC experiment dealt with downsizing. What it did though was calculate that the people affected by the restructuring were going to have to be facilitated in such a fashion that they could be useful either in that sector or in some other capacity as workers who are home working for a living. So that is simply what they did. They approached it that way. They did not take the view

that neither the company nor the union—that okay worker is going to be unemployed. "We are sorry you are unemployed and good luck." I mean, they felt some responsibility for what they were going to engage in, then began to put in place the mechanisms that allow people to be able to recover themselves. That was essentially the experiment of CSTEAC.

Now there is another one, EEMAC, or the forest products experiment out in British Columbia, the electrical industry of forest products, where it is more proactive in terms of talking about how people move within the industry or within the sector and keeping them active and fully employed. Of course, there is some difficulty with that now, not so much in the electrical industry now, certainly with the forest industry out west in that some of the federal government policies around the trade agreement are causing great discontent on both sides of the equation. I hope that answers it, but that is a simple part of the discussion.

**Mr B. Ward:** Just a quick question because it is a guess there are two avenues of thought. We are in a recession, I think, no one can deny that any more. We have to admit that we are in recession and facing tough economic times, but one school of thought is to take the laissez-faire attitude of, "Do nothing; get your financial house in order; the private sector will eventually pull it out." The other school of thought is to direct government involvement as much as possible through capital expenditures. The gist I get from this document is that it is the position of the OFL that our government of Ontario should take a proactive approach to battling the recession through capital expenditure programs and, as well, conducting that battle planning for the future through progressive policies, which is what the four pieces of information that come from the document—

**Mr Wilson:** We would argue that the government should be an interventionist government when the market prices are unable to meet the needs of the people within the jurisdiction of this province.

**Mr B. Ward:** Take a proactive approach to the recession.

**The Chair:** I would like to thank you on behalf of the committee for coming and giving your views. We appreciate the input. This committee is adjourned until 10 o'clock tomorrow morning.

The committee adjourned at 1730.



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économiques et financières

Consultations prébudgétaires

Président : Jim Wiseman  
Greffier : Todd Decker

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 23 January 1991

The committee met at 1004 in room 228.

### PRE-BUDGET CONSULTATION

#### ONTARIO HOME BUILDERS' ASSOCIATION

**The Chair:** We have a quorum, so we can begin. Before we begin with the Ontario Home Builders' Association, everybody should note that we have a new updated version of the agendas for the next two weeks.

Without any more ado I would like to welcome Al Libfeld from the Ontario Home Builders' Association. We have half an hour.

**Mr Libfeld:** I am the president of the Ontario Home Builders' Association. I am also the president of Tribute Corp., a large home builder in the Toronto area. Over the last eight years we have built over 4,000 homes.

Ontario Home Builders' Association is a province-wide organization of 4,000 members. We have 33 locals, locals being Toronto, Sudbury, Windsor, Ottawa, etc., and Kingston of course. We pretty well cover the province. We build over 80% of the new homes within the province. We also represent the renovation market within the province. I appreciate the opportunity to speak with you today. You have, I guess, our budget submission and we hope that you will read it through carefully.

As we all know, we are in some tough economic times. There is a recession going on, there is a war going on and there was a lot of uncertainty in the marketplace which caused a lot of construction not to be built last year and, we regretfully predict, this coming year as well. Interest rates were a concern; the matter of the GST was a concern; free trade was a concern, and the war is also a concern. All those first items are basically removed or being removed. Hopefully, the war will end soon and that will be removed as well and get the buyers back to work.

Last year, the starts in the province were 62,000, which was a 33% drop from the year before. Just to give you a bit more framework, in the very buoyant times of 1987 and 1988, we built over 100,000 units in the province. Last year and this year we lost a lot of jobs. We, as builders, laid off many of our workers, our subtrades laid off workers, the suppliers of course had to lay off workers, and it went further. It went into the manufacturers of appliances, of furniture, up and down the line, and a lot of these jobs were lost permanently and some of them temporarily.

We did a survey recently that predicted that, if the economy does not turn around in the next six months, 20% of the builders in the province who responded suggested that they will not make it through the next six months. So it is a tough economy and hopefully it will turn soon. We are optimistic that it will turn. We have not had good sales in the Toronto area now for two years and the rest of the province for about a year and a half.

So there is some pent-up demand. Immigration is coming in and we are optimistic that, with the end of the war and the remainder of the uncertainties going and interest rates dropping, it will turn around. But we want to work with this government to help things turn around. We do not want to be caught in the same problems that we had in the last boom-and-bust cycle. It is no good to jump around from 100,000 down to 60,000 and back to 100,000. There are problems with that, getting the men in the good times and laying them off, which is even a tougher situation, in the bad times.

We want to develop a partnership with this government. We want to work continuously. We are on call and we will answer any questions or come to speak to you. We want to educate as well, quickly. I want to emphasize "quickly." As builders, we are very impatient people. If the house is sold and the lot is ready, we will go throw up a home in three or four months. That is not thrown up; please excuse that. It is put together properly and livable, and we are very proud of the product we build in Ontario. But it does go up in three or four months because that is our psychology and housing is important around the province. So in all the items I put in front of you today and everything else, we want to emphasize quickly.

#### 1010

I would like to highlight some of the items to get us out of the recession and possibly stop the problems once we go a little further down the line and demand comes back.

The first group of items is regarding economics, and I am only picking several of the items due to the time frame that we have here this morning. The first one is we want to urge the present government to maintain a strong commitment to deficit control and, thereby, responsible, good fiscal management. We think that is quite important for now and for the future.

The second in regard to economics is we are very interested in promoting apprenticeship programs in construction for young people. Young people, for whatever reason, do not look to the trades until they are a little later on in years, especially women. There is an education gap, for whatever reason, and we want to push that so that they get into it earlier on and they realize in high school that there is a very viable career alternative, that the dollars that qualified tradesmen can make are significant, \$30,000, \$40,000, \$50,000, \$100,000, depending on the craft and the level of skill and how hard the person works. It is quite appealing, and we want to ask for an advisory council for the construction industry to identify the labour shortages so that the apprenticeship programs get put into place quickly.

We would like the government to further its commitment to infrastructure. We were very pleased to see the \$700 million in the throne speech a couple of months ago.



The equation between infrastructure and development was made, and we were quite pleased to see that as well. But we want you to understand and the government to understand that infrastructure is the basis for everything getting done. You cannot build houses, you cannot build apartments, you cannot build schools, hospitals, anything without the infrastructure. It is the raw material. You need the roads and the sewers, and whatever further commitment the government can make towards that will solve a bunch of problems.

First of all, it will get people back to work. It is projected that the \$700 million will create 14,000 jobs, but the spinoff after that will probably be even more significant because we can build the homes, we can build the apartments, we can build the social housing, all those things, and house the people and whatever else. We would like you to seriously consider increasing and continually looking at the infrastructure around the province, because it is becoming in short supply.

Right now, we have a lack of demand because of the uncertainties in the market. Down the road the lack of demand will turn. There are people now knocking at all our sales offices. They are not ready to buy yet but they will be in the near future, once they think their job is secure. They need the bigger home or they want to move out of the apartment, or whatever the situation. We also have big immigration numbers coming in over the next five years, so we have to plan for growth and deal with growth in the future.

The province previously announced the sewer and water corporation. It got a little bit of fanfare when it was announced about a year ago. We would urge you to dust it off, bring it forward again and basically push the agenda on it. We only got brief details on what it would do and what it would look like. I believe there is only one gentleman and one secretary running this water and sewer corporation as of now. It makes a lot of sense to deal with this cross-jurisdictionally, to put in water lines through many regions and whatever else, economies of scale. It makes a lot of sense and it helps deal with the infrastructure problems.

Our number one recommendation on housing is we want to urge the government to drop or rescind part III of the Development Charges Act. Part III, as you are probably all aware, is the part of the Development Charges Act that deals with education. We firmly believe, as the majority of you do as well, that education is everyone's concern, everyone's responsibility, and it should not be placed on the backs of new home purchasers. It hurts the affordability situation and it is just unfair for a new home purchaser to pay for something that his next-door neighbour, moving into an existing home, does not have to pay for.

We are committed to going to court. Again, this is not news to any of you, but we have committed ourselves to go to court because we do believe it is unfair, and we will be going to court on constitutional grounds, subject to your not pulling the plug on this faulty bit of legislation.

We made the argument when the bill was passed that you cannot count on the housing industry; it is boom and bust and we go through cycles. We are right in the middle

of a bust. Eight thousand homes were sold in the greater Toronto area last year. The numbers are much too low. We put an appropriate figure to building the schools or helping to build the schools. We urge you to live up to your ideals in this situation and remove the Development Charges before we have to spend our good dollars in the courts. The government has to spend taxpayers' dollars in courts.

The next housing recommendation is we would like the land approvals process streamlined. It is cumbersome. We have been involved in several studies with the government over the last bunch of years. It takes a good 10 years for a piece of farm land to become a piece of productive land. We do not want to step on anyone's toes. We want the environmental things to be taken care of properly. We want everything else to be taken care of properly. But we want the time frames shrunk. Ten years is ridiculous for a municipality that wants to go forward on a piece of land not be able to. It just takes that amount of time to go through the process.

We have a parcel of land in Ajax now that has been designated. We want to build homes and social housing on it and we have another two years to go. The draft plan has not been approved yet, which is part of the problem, but the parcel has been designated that way for over three years now. It is five years to create something that will create jobs, create housing, all the good things that we all want and need.

What we are suggesting there is put together an umbrella policy to do it quickly. We are talking about 12 months. I can build a subdivision of 200 homes in 12 months. This government can go through the paper and decide what to do within that same time frame. We really think it is doable. We really think it is important for all our sakes so that the next time the demand comes back, as I said before, we will have the quantities of land so that the price escalations will not be there. People will not be paying huge dollars and it will smooth out the situation. We would like the Ministry of Municipal Affairs to be the quarterback of this. We think it is in their bailiwick and that they can do it. Again, it is extremely important.

## 1020

Other recommendations for short-term measures to speed up the approvals process are:

We would like rationalization of the condominium and land titles registration process. It takes a year now to get a condo registered, and it takes 12 to 18 months to get a parcel of land through land titles.

We would like the establishment of the Seaton development as a model for fast-track approvals. Seaton is great, but we have got to get going on it. Seaton has been talked about for ever and no homes are getting built there. It is a shame to waste that parcel of land when we are going to need the housing units in the next little while.

We would like nomination of more members and greater resources to the Ontario Municipal Board. Things for whatever reason, get bogged down in the OMB, and we do not believe they have the capacity to deal with them expeditiously. It takes six months to a year to get to trial sometimes and sometimes it takes three to four months to



t a transcript for the judgement typed afterwards, which much too long a time, and it slows down everything.

Our other recommendations are that we would like to ramp the non-profit housing. Basically, we want to get more involved in it. We want, possibly, to go out to tender; decide in this location we want 1,000 units and let all the builders, all the developers, everyone, go out and tender the project and forget the performance bonds. We all have parcels of land, but performance bonds are expensive and they are prohibitive to a lot of our smaller members around the province. We want to build these units.

We were very upset to see that the first piece of legislation regarding housing was the rent control legislation, because of the retroactive nature of it as well as that it reduces supply. We are concerned with supply more than anything else. That is why we are upset.

To summarize, we urge you to read the document that we placed in front of you. I believe at the beginning of our terms we mailed to you all a copy of Housing: Re-creating the Dream. It is very comprehensive and it outlines pretty well all our issues and all our beliefs, and it packages them very well. If you have not received that or you would like another copy, please give us a call and we could make as many as you need available.

We have the experience to build—as I suggested, I build—and our members make up engineers, architects, surveyors; we have municipal governments as members; we have lawyers, builders, contractors, suppliers, up and down the gamut, renovators and developers.

Next week we have the pleasure of meeting with the treasurer, and I thank you for the opportunity of meeting with you. The door is open. I would appreciate meeting individually, collectively, at any time or with any of our people. We have presidents around the province. If there are any questions, I would love to entertain them at this time.

**Mr Stockwell:** I note that you are suggesting there are going to be 55,000 new home starts in 1991. How many of those would be non-profit units?

**Mr Libfeld:** It was a tough one. We doubled that this week. We know the government is committed to the 30,000 units and we hope you are successful in it because we will become a part of building it, but we think that is overly optimistic. We know how to build and we are in January now and it is going to take a little longer to get going.

The gross number was 55,000, which included the social housing. We are only guesstimating that they will be successful in the 10,000-15,000 range, but it is a guess. We hope you build them all; we really do.

**Mr Kwinter:** The 55,000 does include the 20,000?

**Mr Libfeld:** Yes, it includes what we believe will be within the 20,000. We do not think you will make the 30,000.

**Mr Kwinter:** That is the point I am making. Does it include the 10,000 or 15,000, or does it include 20,000?

**Mr Stockwell:** That is the point I was making.

**Mr Libfeld:** It is 10,000 to 15,000.

**Mr Stockwell:** So it is 10,000 or 15 you are putting in. You are saying you are not going to do 5,000 or 10,000?

**Mr Libfeld:** Yes. I am not sure where it is going to drop.

**Mr Stockwell:** Then yourselves—let's call it 15,000, you think—from the private sector you are going to do 40,000?

**Mr Libfeld:** Correct.

**Mr Stockwell:** That is off from the 1990 numbers—I saw them in here—62,600?

**Mr Libfeld:** There was some social housing there, about 4,000 or 5,000, so 58,000 in comparison.

**Mr Stockwell:** You are expecting the social housing to double?

**Mr Libfeld:** At least double; hopefully, we will do more.

**Mr Stockwell:** I do not think so. Next one: lot levies. With respect to the sewer improvement, schools, etc, you have taken a hard line on lot levies.

**Mr Libfeld:** On the education portion.

**Mr Stockwell:** Only the education portion?

**Mr Libfeld:** The education portion is the one we are attacking.

**Mr Stockwell:** You have regional councils weaselling in on that money as well.

**Mr Libfeld:** We have alternatives. We are suggesting municipal bond financing. We are suggesting doing things more in advance instead of retroactive levies dealing with the situation after the fact. You know, you have the need, then you get the levy and then you build the school, but people are already living there. We are suggesting that all governments deal with things beforehand.

**Mr Stockwell:** So you build the school before you build the houses?

**Mr Libfeld:** No. You build it in conjunction with the houses. You raise the dollars beforehand with municipal bond financing, general revenues, previously with the province's dollars or a larger proportion of the province's dollars.

**Mr Stockwell:** You are not really fussed with municipalities floating bonds, then?

**Mr Libfeld:** That is what we are attempting to push.

**Mr Stockwell:** You think that is a proper and sound financing method when it comes to infrastructure?

**Mr Libfeld:** Yes; pay it off over a longer period of time.

**Mr Stockwell:** Much like debenturing?

**Mr Libfeld:** Yes.

**Mr Stockwell:** Except the difference is that you would not have lot levies.

**Mr Libfeld:** No, we have no objections to lot levies for services.

**Mr Stockwell:** Like sewers and sidewalks.

**Mr Libfeld:** Sewers and water, roads and whatever.

**Mr Stockwell:** You just do not want to pay for the schools?

**Mr Libfeld:** No, nothing like that.

**Mr Stockwell:** Let me go to the next house, the 25% affordable housing component and how you are following that rule or guideline—I am not even sure if it is law or not. I do not think it is because I know that some municipalities are enforcing it, others are not, some have higher, others have lower. Do you find it difficult in certain instances to meet that and do you take your 25% offsite in most instances when you are building single-family residential?

**Mr Libfeld:** It is relatively new. There are a couple of plans going through that have been outside. There are a couple of municipalities I have dealt with and within the general area of the municipalities this section will be 25%. Everyone is doing it a little bit differently, from what we understand at this point.

**Mr Stockwell:** We had a group in yesterday from legal services suggesting that in fact it is going offsite. The good development goes in this spot, then you take your 25% and put it beside a highway. Do you find that to be the case?

**Mr Libfeld:** Not specifically, no.

**Mr Stockwell:** Is there much going onsite or is most of it going offsite?

**Mr Libfeld:** I am familiar with a couple of projects onsite, yes.

**Mr Stockwell:** Are you familiar with more offsite? I would like to know how this is working from your point of view. I do not think it is working.

**Mr Libfeld:** Where I am developing, the municipality is doing it in areas, but it is not necessarily onsite. There is not one area less desirable than the other area. There are no major roads or trains or anything like that. So I do not believe it is a problem as of now.

**Mr Stockwell:** Are you in fact meeting that 25%?

**Mr Libfeld:** In co-operation with the towns. The towns are attempting to enforce it, and under their—

**Mr Stockwell:** Definition of “affordable.”

**Mr Libfeld:** —definition we are meeting it as an industry around the province.

**Mr Stockwell:** But the difficulty, again, is what is affordable.

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**Mr Libfeld:** Every town has a different idea.

**Mr Stockwell:** Metro’s definition of “affordable” is certainly different than some areas outside of southern Ontario, at least, anyway.

**Mr Libfeld:** Everything is affordable in some of our areas in the province.

**Mr Stockwell:** The other point is, with efficiencies in the system, etc, you are suggesting that the cost of houses would in fact be reduced, the cost of construction, the delays, etc. I am curious about that. I have always been a believer in the free market system, but I am also a firm

believer that those who build are going to charge what the market will bear. Do you not? Regardless of how efficient the system is, if you are going to make \$100,000 a house, you are going to make \$100,000 a house. You are not simply going to drop the price because, “Gee, it’s a more efficient and we can make more money here.” If a house worth \$300,000, you are going to sell it for \$300,000 regardless of whether or not \$250,000 is a reasonable return.

**Mr Libfeld:** We are in the business to make a dollar but with quantities of lands competition will take over. You do not have that problem in the majority of locations in the United States where they do not have the infrastructure problem. They put in the roads and sewers way in advance. For a very large home, you pay a third of what you pay in the Toronto market.

That is not the problem. We want to build more. We want to build for less money. It is the quantity of land that can get into the system, because there is not the infrastructure and that is the basic problem. There are only so many lots in the next year and a half or two years, that can be built. If demand comes back, we are going to be faced with the same thing we faced in 1986, 1987 and 1988. We as an industry do not want that. We would rather have a smoother playing field, have the quantities there, have people have more of a choice and bring down the prices.

**Mr Stockwell:** Really, in a nutshell, you are suggesting that during this economic slowdown the best thing for a government to be doing would be building the infrastructure, creating the lots earlier and then when the market heats up again there will be enough on the market so they are not driving the price out of people’s affordable range.

**Mr Libfeld:** Exactly.

**Mr Jamison:** I just want to get a feel for the impact you feel your industry will have concerning the GST and its effect on your ability to provide housing at a reasonable cost.

**Mr Libfeld:** The GST was more expensive than the federal government suggested because of the land component that is presently being taxed. There is a rebate on inexpensive homes of 2.5% and there is a removal of the other tax, the manufacturers’ sales tax. In the Toronto area it is suggested that it will cost 1.5% to 2% more. Outside of the Toronto area in the rest of the province, in the smaller locations there will not be a significant cost because the land component is not that significant. That is basically where the difference is. So there is a cost of 1.5% to 2%, but the problem with the GST is twofold. Number one, they put an artificial cutoff date of 31 December and the majority of the builders, suppliers and manufacturers basically delivered everything on 31 December. Now we are all walking into the new year stop-start, so to speak, and everyone is getting comfortable with using it so it is not going to be the issue it was before. It is on the back burner, so to speak.

**Mr Kozman:** My name is Brian Kozman. I am the director of policy and research. I think it is fair to say that there was an anticipation on the part of the industry that the GST would skew some buyers into the end of 1991. That did not occur because of the obvious economic



turn. Builders who had hoped for that skewing, people bringing forward their buying decisions, brought a lot of product on stream so there is a lot of unsold inventory sitting out there.

That created problems for us in so far as you now have product on the market, but no buyers. The carrying costs of these houses and that land were very difficult and it has created problems for builders. We were quite pleased with the statements made by the Minister of Finance just before Christmas that they were extending the deadlines for getting back the rebates on some of that unsold inventory, because I think there was a recognition that there were a lot of homes sitting out there that were posing problems for builders and developers in terms of carrying costs.

**Mr Kwinter:** One of the statements you make is that unless the economy improves, 20% of the home builders are going to go out of business. What is your definition of improved economy? What things are you looking for? Are interest rates the key? What is the key?

**Mr Libfeld:** Interest rates are probably at the top of the list, and they are coming down. We did a survey among our members. We sent out to about 300 members and 116 responded. Of those who responded, 20% said they were in dire straits and if it did not turn around in the near future they would be out of business. That gives you an idea. I think interest rates are a key, but we would like the government to consider a lot of the proposals that we face before you today in the remainder of the document that are placing in front of you.

**Mr Kwinter:** We have had two of the major banks in here and they are saying the economy is going to improve in mid-1991 and will continue to improve in 1992 and 1993. There are some questions as to whether the interest rates are going to change because of the government's desire to put a cap and dampen inflation, so you could have this anomaly of the economy improving but interest rates not. What I am really trying to determine is, if the interest rates stay high and the economy improves, is that going to solve your problem or is it still going to be a problem?

**Mr Libfeld:** That is fine, but high interest rates cost more to produce a home. It is part of the component. It takes time to build a home and whatever else and the purchasers have to pay more for their mortgages, so it is part of the equation. Of course we would like lower interest rates, but a good economy with high rates is a catch-22. I am not exactly sure. Normally it does not happen that way.

**Mr Kozman:** High interest rates are only one component of why the consumers out there do not have confidence in the economy. They are uncertain about what their job situation is going to be. They are uncertain about job opportunities. They are uncertain about what the war is going to hold. All of those things interact, I guess, to influence their buying decisions. They are making the biggest decision, in terms of a purchase, in their life and all of those things combine. Interest rates are a big component of that. In the mindset of the consumer, "I can't get into the market if I'm looking at 13% interest rates."

Part of our concern is that that artificial barrier is blocking them from making a decision. Right now the industry is starting to get smaller-sized units on the market, looking at a lot of multifamily stuff, town homes, that sort of thing. The market has responded to the tough times by trying to put out a product that is more in line with the buying power of the consumer. I think if we have some of the things we are asking for in terms of a more streamlined land approvals process, more land on the market, more infrastructure upon which you can base the foundation for new communities, that is all going to help in terms of getting that buyer a bit more confident about his being able to follow through on his decision to buy a house.

**Mr Kwinter:** The interest rates are more than artificial because the higher the interest rates the higher your income has to be to meet the mortgage qualifications. You may be ready to buy a house tomorrow and then find that the interest rates have gone up 1% and you are no longer qualified, because the mortgage company does not determine that your income is enough to carry the higher interest rate mortgage.

**Mr Libfeld:** That is definitely part of the equation.

**Mr Kwinter:** You talked about one of your recommendations dealing with the fact—I know this to be true—that the workforce is aging in the construction business because not enough young people are coming in. You are suggesting that the government has to really address that. One of the problems is that there is a social sort of hangup. The average mother would not be thrilled if her daughter came home and said, "I'm going to marry a bricklayer," only because there is this kind of lack of appreciation of the value of manual trades and skills and what they contribute to society. I think that is something everybody has to sort of contribute to changing, to give a social value to the fact that there are people out there doing these jobs.

They are very lucrative. You know the standard gag about the doctor who comes to the plumber and says: "How come you're charging so much? I only charge so much." The plumber says, "When I was a doctor, I used to charge that much too, but now that I'm a plumber this is what I charge." They make a great deal of money, but there is not that social acceptability. I think this is something the industry has a responsibility to work on as well, because it has to be shown that these are valuable jobs both in an economic and in a social context and that they make a valuable contribution.

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That then carries on to the next concern I have. You are talking about the apprenticeship program. There are problems because there are barriers to entry into the apprenticeship program because there are controls put on by the people who are already in it. It is a matter of controlling their industry. How do you deal with that?

**Mr Libfeld:** We suggested to the government as early as last week—we were in to see the Ministry of Skills Development—that we want the ratios to be changed. Anyone who wants to learn a trade should be able to get into it. It is tough when the ratios are four or five to one, five journeymen to one apprentice. The access should be



there. Not all firms, subtrades and contractors have teaching organizations, so you have four or five to one, but in essence maybe you have 20 to one and things like that. A lot of our trades and a lot of our workers in slow times and whatever go into the manufacturing industry. They go into all sorts of different aspects of our economy, but they are qualified electricians, they are qualified plumbers. We are a great training ground. We probably do more training than any other industry in the province and we are the largest employers, as of now, of any industry in the province. That is the way around it: reduce the numbers and we will get the people in there.

**Mr Phillips:** I would like your estimate of what is the right number of new households each year that we should create. I know it is difficult. We know how many households have been formed. What is the right number? Otherwise, in bad times you will be here looking for more roads and in good times you will be here looking for something else.

My second question is, your advice to us here is, I think, during difficult times the temptation is to spend your way out of a recession but you do not believe this is the answer to Ontario's current problem. Your advice to the committee, I think, is to spend more money on infrastructure and to go further into debt by funding, through debt, schools and things like that. So both of those recommendations are kind of, "Cut somewhere else, but spend here." Knowing that almost 90% of our budget is health, education, community and social services, debt servicing and the stuff we are talking about, if we cannot cut elsewhere, would your recommendation still be to spend here and take the debt up?

**Mr Libfeld:** It is very difficult to tell an unemployed bricklayer or electrician today, "You're sitting home because we have other responsibilities." The most important thing to him right now is to get out and get to work. Infrastructure will solve that problem, not only short term but long term. If we have the infrastructure in place, you will not need to know the quantities of housing units. The industry will build the quantities of housing units. When the demand is there, we will be able to build them because the infrastructure will be there; when the demand is not there, we will not build them. But we will not come to the boom-and-bust cycle with prices, because there will always be competition.

**Mr Phillips:** The problem is, you say, "Maintaining control of our deficit must continue to be a top priority with the government of Ontario." I would think you are saying to us a higher priority than that is what you are recommending.

**Mr Libfeld:** Municipal bond financing is spreading it all over a longer period of time.

**Mr Kozman:** We are not talking about willy-nilly spending and going into debt in the province. We are talking about a co-ordinated system whereby this government can get back into the business of providing infrastructure, upon which the growth of this province depends. In our opinion, that responsibility has not been there in the past little while. I think we would have liked to see more in-

vestment in the infrastructure, in the foundations of communities, upon which we have to build.

Obviously there seems to be a dichotomy of saying "We want deficit control on the one hand, but on the other hand we want to put in place more spending on infrastructure." We view that infrastructure as an investment. It is an investment in the future of the province. It allows us to build more homes built and it allows the province to get a more attractive commercial base and industrial base. I don't think they are mutually exclusive things. I think they can work together and I think that if we take a look at streamlining some of the problems we have identified, we can reduce costs in other areas.

**Mr Phillips:** As you know, we will wrestle with this here. Well, the Treasurer will. We will give him a nice report, but he will wrestle with what size the deficit is going to be. I just want to make sure that when you look at that you realize your recommendations to us are going to be kind of two ways.

**Mr Kozman:** I agree.

**Mrs Sullivan:** I am going to be all over the place with these questions. I wonder, first of all, if you could give us an indication of whether you have seen a move in your workforce out of new home building into renovation, and into your membership.

**Mr Libfeld:** Some of the members; my own firm has a renovation wing. The economy was such that renovation did not grow last year. Actually, people were concerned about even renovating last year. It could be the case in the near future, but as of last year there was no move.

**Mrs Sullivan:** Are you seeing any indication that GST rules will mean that renovation becomes more attractive as a portion of the activity of your industry over the next period of time?

**Mr Libfeld:** All the surveys and all the economic data suggest that it will reverse itself with new home construction. New home construction was the larger of the two. They will reverse over the next little while.

**Mrs Sullivan:** What impact would you see that GST has on your labour force?

**Mr Libfeld:** Our labour force does the new home construction and the renovation. We represent both industries. Our labour force does the work on both new and old product.

**Mrs Sullivan:** Basically what you are saying is that although there may be a change in what the industry is doing, the labour force would be constant, no matter what it is.

**Mr Libfeld:** Yes. A plumber is a plumber. He works in a new home or an old home.

**Mrs Sullivan:** I was interested in some of your comments on Seaton. I wondered if you had entered into discussions with the Ministry of Municipal Affairs relating to the R-2000 component in that Seaton project, if you had talked at any length with those people and whether you thought it might be worth while to look at the building initiative, at things like district heating.

**Mr Libfeld:** I am not that familiar with district heating, but it was very preliminary with the previ-



verment. We had several consultations with them and 2000 was never mentioned.

**Mrs Sullivan:** The third aspect relates to demographic change and the impact that will have on housing starts over the next period of time, not immediately, but we certainly know the impact of housing starts as an economic indicator. Is the OHBA looking at, say within the next 10 to 15 years, a change in the nature of housing development as a result of changes in demographics that may in fact change the economic indicators over a long period of time?

**Mr Libfeld:** We had a couple of speakers yesterday. We had the presidents' and EOs' conference in Toronto, where all of the 33 presidents from around the province came in for a two-day seminar. The economic speaker suggested it is going to be changed. The baby-boomers are getting older. They are going to possibly want move-up homes or condominiums and there are fewer people following us who are in the starter field, so yes, the demographics will change. The only wild card in the equation is immigrants and where they come from and what kind of dollars they are going to be either creating here or bringing with them.

**Mr Kozman:** While there are going to be more move-up buyers in the market, it is also important to realize that there is only so much land out there to build upon. Boundaries are changing to try to meet the needs, but I think you are going to be looking at more compact development, higher-density development, hopefully if the municipalities are willing. I think you are looking at more multifamily housing. The industry is equipped to deal with that, but we need a partnership with the municipalities to bring that about. The not-in-my-backyard syndrome that prevails out there in many cases prejudices our ability to move towards that higher-density type of housing and development. I think that is going to have an influence as well, in addition to the demographics that are going to be coming.

**The Chair:** We would like to thank you for coming today. We appreciate your brief.

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#### ONTARIO GOOD ROADS ASSOCIATION

**The Chair:** Our next presentation is the Ontario Good Roads Association, David Murray, president. To the members of the committee, we are now running behind time. If we could keep our questions brief and to the point, we could still be out of here at a reasonable time. Please begin.

**Mr Murray:** We recognize by the clock that we did run a little over with the last delegation. We will try to be as brief as possible. I think you have been circulated a copy of the brief from Ontario Good Roads, and with your permission I would like to just go through it quickly. At the end of the presentation, if there are any questions of the committee, we have some members of the board of directors here and we would try to briefly answer those or clarify.

My name is David Murray. I am president of the Ontario Good Roads Association. I would like to introduce

my co-directors. With me are Dan Zakula, area superintendent, roadways division, regional municipality of Niagara and OGRA first vice-president; Robert Dempsey, OGRA second vice-president, and Len Rach, director of engineering, transportation department, municipality of Metropolitan Toronto and an OGRA director. Also present with us this morning are Sheila Richardson, our OGRA executive director, and Diana Summers, OGRA policy adviser.

On behalf of the Ontario Good Roads Association, we are pleased to be here this morning and discuss those issues that OGRA feels should be considered by this committee as it develops recommendations for consideration in the preparation of the upcoming provincial budget. Mr Chairman, it did not go unnoticed this morning that your last delegation, the Ontario Home Builders' Association, made some mention of the importance of roads infrastructure, and I thank them for bringing that to your attention.

OGRA is a municipal association with 750 member municipalities, both urban and rural, large and small. Municipal representatives who sit on our committees and the board of directors include both elected representatives and appointed municipal officials, so the interests of municipal road and bridge infrastructures are well represented.

OGRA's mandate is to present the road-related concerns of the municipalities to the provincial government. We are aware that the government is facing a large deficit that is expected to grow even larger. We also know that during the course of these hearings, this committee will hear repeated pleas for funding from a variety of deputations, all requesting urgently needed funds for a variety of deserving causes. Yours is not an easy task and we wish you well in your deliberations.

We have come today, as in years past, to remind members of the importance of a road system in good repair and capable of meeting demands placed upon it. The throne speech provided an indication that this government is prepared to address the needs of the public infrastructure, and we of course welcome that initiative.

As municipalities, we are ready and anxious to take on the challenge of meeting transportation needs and demands and placing these demands in the context of other, broader expectations of today's society. We know, for example, that environmental concerns rank high on the public agenda and that the municipalities must keep this in mind as they embark on road-related projects. We are also aware that public transit will play an ever-increasing role in the movement of people, at least in our larger urban centres. OGRA recognizes and supports this role that public transit must play in our efforts to protect the enhancement of our environment. We believe that a balanced approach to the provision and maintenance of both roads and public transit will best serve our economic, social and environmental priorities.

The problem, of course, remains where to find the necessary funds. We would like to reiterate our recommendation that a one cent per litre fuel tax be introduced and the revenue generated dedicated to road needs. We recognize that dedicated taxes reduce the availability of funds for those sectors that do not have an obvious source of revenue, but we believe that public acceptance of increased



taxes will result if the specific target and use of the funds is indicated.

Revenue from fuel taxes has been mentioned as a source for several possible initiatives, but OGRA believes that road needs are the legitimate recipient of those funds. We calculate that revenues from this source would go a long way to addressing the road needs in Ontario.

I would like to emphasize that this is not a plea for more roads, but for better roads. Roads in good repair could help both our economy and our environment by moving goods and people quickly and efficiently. It also makes economic sense to spend public funds on road repair and maintenance, which is far cheaper than road construction. It also protects the investment of public funds that we have in our infrastructure. Perhaps we should also note that there is a high labour component of road projects, which will surely be important during the recessionary times ahead.

Insufficient funding for roads is not going unnoticed. Today road funding is less than 10% of the provincial budget. Municipalities are doing what they can to help offset inadequate assistance from the provincial government. Almost 75% of the municipalities in Ontario are undertaking significant road work without the benefit of provincial subsidies, resulting in increased local taxes or increased lot levies. In fact, the full impact of government underfunding of roads has been cushioned by municipal decisions to provide road construction and maintenance beyond that covered by provincial subsidies. Compounding this are indications that the government will look to municipalities to assume certain roads or portions of roads that are no longer deemed to serve a provincial purpose.

In general terms, we would like to caution the government that this is not the time to introduce new policies and programs which are to be paid for by municipalities. Simply, if the government cannot afford them, neither can the municipalities.

Another area that we would like to mention briefly is that of deconditionalization of road grants. As some of you may be aware, AMO—that is, the Association of Municipalities of Ontario—has issued a discussion paper entitled *New Dimensions*, which recommends that municipal road grants and other conditional grant programs be eliminated and the funding allocated through a new municipal general support grant.

OGRA is opposed to deconditionalization and believes that the road grant should be improved, not replaced. Right now, payments to municipalities are based on road needs and are responsive to municipal needs and the ability to pay. Within this grant, municipalities can determine their level of expenditure on roads, as well as their road needs priorities. We recognize that the existing grant system has many shortfalls that should be remedied and we have offered to work with the Ministry of Transportation to eliminate inconsistencies and duplication in the grant structure.

OGRA recommends in the strongest possible terms the need to improve the existing road grant, not replace it. Some 160 member municipalities of OGRA have passed resolutions supporting this position. The issue of possible deconditionalization will likely be debated in the coming

months and we wanted to take this opportunity to voice OGRA's position on the record.

Another issue of prime importance to OGRA is the need for grade separations and improvements to level crossings. The federal government seems intent on allocating its responsibility to participate in the funding of grade separation projects. There are currently over 80 outstanding projects awaiting approval in Ontario and we would like to hear what action the provincial government intends to take in the absence of leadership from the federal government on this issue.

OGRA appreciates the opportunity to have these discussions with you. We wish you well in your deliberations and hope that our comments will be of some use to the committee.

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**Mr Kwinter:** In the years I travelled the province literally from end to end, I would say the most common request I had from municipalities outside of the greater Toronto area was for four-laning the highways in that particular area. The feeling was that if they could only have a four-lane highway, all great things would happen; industries would locate there and they would have economic activity, everything would be greater.

What are your feelings about that? Do you think this is a priority and this is something the government should be doing?

**Mr Murray:** I do not think, in a simple form, that is the total answer to what municipalities in the province want. As an elected official—I realize that all of you are elected officials—certainly what I am hearing as the first complaint, after dogs and loud music next door, is the condition of roads that people drive day to day to go to work. That seems to be priority 1.

Some of the social things that were mentioned a few minutes ago in the other presentation are what I choose to call motherhood issues, and they are very important. As far as the roads are concerned, in the north four-lane roads seem to be a high priority; I am talking about the true north of Ontario. In the central southern section, I am not so sure that four-lane roads are really the answer. The infrastructure and the condition of those roads, to get to work and for services, seems to be top priority with the people I talk to.

**Mr Christopherson:** My personal background is city and regional council for five years, so I am familiar with this issue at that level and understand the funding problems. Aside from positions taken by councils, the one cent per litre fuel tax is something that at least has intrigued me.

I would like to ask a quick question, and I am just suggesting this hypothetically. If the price of oil should skyrocket as a result of the war and it were to stay at extremely high levels for a sustained period, would you still feel that this is the best way to go? Or would that mitigate your recommendation and would you feel that with that situation happening perhaps this idea should be held off a little? What are your thoughts on that, if that scenario were to happen? Or do you still think this is



ound, fundamental structure as to how we ought to be funding roads and the costs?

**Mr Dempsey:** If I could answer that, my name is Bob Dempsey. I certainly appreciate the opportunity to talk to you. The one cent a litre fuel tax we calculate would generate \$80 million to \$100 million a year. Interestingly enough, that almost coincides with the dollars of deficiencies which the present Ministry of Transportation budget does not fund. Municipalities, the upper tier in the counties especially, kick in close to \$75 million a year in additional funding over and above what is subsidized, 100% municipal tax dollars if you wish.

The Canadian Automobile Association and all of those types, the Ontario Trucking Association, have all said there is a fuel efficiency related to fewer potholes. If we can make the roads more efficient and move goods and people quicker, as opposed to idling on the Don Valley parking lot at 5 o'clock, then we are going to spend an awful lot less money on fuel and the cost of fuel. If your government can see its way clear to allowing the roads to be better quality and higher capacity to move goods and people, then the price of fuel is not going to have as big an impact on your economy.

**Mr Christopherson:** Let me very briefly follow up on that. Are you suggesting that the automobile associations and those organizations would be supportive of this move?

**Mr Dempsey:** I am not sure what their official position is on a dedicated fuel tax, to be honest. I should not go on record as saying what they feel. I do know they support better quality and higher capacity road systems, naturally.

**Mr Christopherson:** It is how we fund it that has always been the bugaboo.

**Mr Stockwell:** On the one cent per litre, I can see your argument. How long do you think before some government comes along and steals your one cent, though, and applies it elsewhere? That is famous, for governments to dedicate it for about a year and then steal it and put it someplace else, and then you are back here telling us, "Gee, if we could only get that one cent back, life would be wonderful again."

It never seems to work that way. Some government dedicates it for a year, then something comes along that is so much more important and everyone cries they need money and someone says, "Gee, we have about \$100 million from the one cent a litre." I would like to hear your comments. Do you really think that is going to stick with good roads? Do you believe governments down the road will buy into this dedicated one cent for ever? It will just be another form of tax applied to the general revenues, just like the tire tax was the first year it was introduced.

**Mr Dempsey:** That is exactly what I was going to address, the tire tax. The fishing licence was dedicated towards restocking our streams.

**Mr Stockwell:** The air conditioning tax on cars in the 1970s. I am not blaming one government. They all do it.

**Mr Dempsey:** The commercial concentration levy in downtown Toronto: I do not know whether that is dedicated to specifically relieving that problem—

**Mr Stockwell:** It is dedicated to general revenue.

**Mr Dempsey:** We feel it can generate \$80 million to \$100 million per year to the present approximately \$725 million a year subsidization budget that the MTO distributes to municipalities. If that is increased by \$80 million to \$100 million and you wish to abandon the one cent a litre dedicated tax, as long as the \$80 million to \$100 million stays so that municipalities can do their long-range planning of projects and you do not, all of a sudden, cut their transfer payments by \$80 million to \$100 million in the future, then I think our concerns are allayed.

But I have the same fears that you do, that they would take away the one cent and then drop our transfer payments by the equivalent amount. That would be disastrous.

**Mr Stockwell:** In your recommendations, there is no guarantee that that one cent would stay.

**Mr Dempsey:** I do not think we can guarantee what government is going to be sitting in power, either.

**Mr Stockwell:** Exactly. The difficulty I have is that I believe the only way you stop governments from spending is not to give them the money. I think if you generated another \$80 million to \$100 million on one cent a litre, you guys would not be getting it inside of two years.

**Mr Dempsey:** The one thing the government of Ontario has to remember is that for every dollar it spends, the municipalities pretty well match it dollar for dollar.

**Mr Stockwell:** Not any more.

**Mr Dempsey:** In order for us to qualify for the \$80 million to \$100 million you would add to the budget, we would have to come up with \$80 million to \$100 million on average. The subsidization rate for transportation is about 50% across the board. So you are getting a \$2 bang for a \$1 buck, because the municipalities are coming up from the other direction to match your dollar.

**Mr Stockwell:** It is kind of nice to be at the provincial level and be able to see the municipalities picking up the responsibility. At Metro we picked up responsibility for road improvements, etc., at 100-cent dollars. The comment I always made as a Metro representative was that the biggest mistake we made was committing the 100-cent dollars, because it took the provincial government off the hook. Have you canvassed your members and asked them what their plans are in the future. If they keep picking up the 100-cent dollar programs, then really the provincial government can say, "Well, it's getting done without our money."

What is their position on the 100-cent dollars? Are they going to continue to pick it up? If so, I think you are arguing against your case. I have always thought that way: "If you're going to pick up the 100-cent dollar programs, then don't come crying poor to me."

**Mr Dempsey:** I dare say you could avoid repairing the Gardiner Expressway. You had to spend whatever it took to repair it. You cannot abandon your duties.



**Mr Stockwell:** You could have avoided it. I was on council. You could have avoided repairing it: you close it down. And you expanded it by a lane.

**Mr Rach:** The argument in terms of spending 100-cent dollars is quite valid. On the other hand, even with the 100-cent dollar expenditures that the municipalities in Ontario are throwing into their road programs, we are still falling behind on rehabilitating the system. In Metropolitan Toronto, there is a long list of roads slated for reconstruction but there just is not the funding to reconstruct those roads at present.

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**Mr Stockwell:** Municipally?

**Mr Rach:** Municipally. The money just is not there.

**Mrs Sullivan:** In the NDP Agenda for People there was a recommendation made that the Trans-Canada Highway be four-laned and there was a budget figure attached to that of \$100 million. Could you tell me how many miles that would buy?

**Mr Murray:** It is difficult to say. In some areas of northern Ontario \$100 million would not go very far. In other areas of flatlands, you can buy a lot more four-lane highway on a flat terrain than you can through a rocky terrain that curves around lakes, etc. So it is difficult to transfer \$100 million into kilometres. It depends on what sections you are talking about.

**Mrs Sullivan:** What would the range be—10 miles to 50, or 1,000?

**Mr Murray:** If I can just expound our position on that, we have talked to the Ministry of Transportation on this issue. What it is attempting to do is to develop truck passing lanes in certain areas and maximize the bang for the buck in that area, not an entire four-lane Trans-Canada from one end of the province to the other, realizing that is financially difficult to ever achieve. But there are sections where it would make sense that you could put in truck passing lanes, etc., to increase and improve the flow of traffic around people hauling campers and heavy truck traffic. So the \$100 million, on our recommendation, should be studied very carefully and built as passing lanes in certain sections.

**Mrs Sullivan:** How much does it cost to build on flat land, say, a kilometre of highway?

**Mr Murray:** I am not sure of the budget figures, but to build something like a 401-type of cross-section would likely be a million dollars a kilometre, would it not, Len? Or would it be more?

**Mr Rach:** I think it would be more. Generally speaking, to widen the metropolitan urban arterials is running anywhere from \$2.5 million to \$3 million per kilometre.

**The Chair:** Is that just for a two-lane road?

**Mr Rach:** We are talking of, say, widening a four-lane to six lanes or a five-lane road to seven lanes.

**The Chair:** The numbers in the budget from last year have cost of highway construction in southern Ontario at \$1 million per kilometre for two lanes, \$6 million for four

lanes and \$15 million for six lanes. So these numbers incorrect?

**Mr Rach:** We are talking of generally reconstructing the pavement and widening and moving utilities. We are not looking at property acquisitions or very expensive items.

**The Chair:** Of course, you are talking about a different type of construction with the 401. It has, what, a 10-inch to 18-inch concrete base, with a two-inch to three-inch layer of asphalt on top?

**Mr Rach:** Yes.

**The Chair:** If you are talking about a northern road, you are talking about different grades of asphalt and so on because of freezing. Also, you are talking probably about two layers of three-inch asphalt, which makes it a different cost, does it not?

**Mr Dempsey:** The one thing you have to recall, and what I do not think any of us talked about, is interchange. They are really where the money gets poured in, because you do not know whether you want multilevel interchanges like the 400-401 or whether you can have at-grade interchanges. That is where you can chew up an awful lot of your dollars. To estimate dollar per kilometre to build a piece of road is really an individual estimate on each case.

**Mr Phillips:** I just make the observation, because you mentioned 50-cent dollars, that I think that era is gone. The new government has committed that it will not impose municipalities programs like that, where they fund part of it and then expect the municipality to pick up the other part of it. So I would not count on that in the future, because they think they said that if they launched a new initiative they would not impose that on the municipalities but rather would fund it. It may not be as easy to leverage those dollars in the future.

**Mr Dempsey:** What I am quoting is the historical picture of the amount of money spent by municipalities and the amount of money spent by the government in the roads and infrastructure in municipalities. It works out to somewhere around 50-cent dollars.

**Mr Murray:** To take your question a little further, you are finding, for example, in our municipality that our grant rate is 53%, 53-cent dollars. Our municipal council is throwing into that pot, if you will, for strictly roads purposes another \$100,000 to \$150,000 of tax dollars straight from our taxpayers. Our experience in our road program is that even with that influx of funds, direct tax dollars, we are just managing to hold our own relative to the roads with almost no new construction. It is almost a break-even situation in our small municipality of 10,000 people.

**Mr Dempsey:** One document you may wish to look at, and unfortunately we do not have it here to present to you, is a brief done by the Federation of Canadian Municipalities. In it they tried to calculate the economic impact of spending \$1 on roads to what it does for the economy. I believe it was a factor of about two, but I am not sure. It is something that in recessionary times the provincial government should look at, because, as we said in our brief, road projects are very labour-intensive projects. It will



definitely help an unemployment situation. A healthy economy is an employed economy. For every dollar you spend on roads you are going to get it back in sales tax and income tax and fuel tax, because your people are going to be busy and they are going to be back out spending again, as opposed to trying to maximize the impact of UIC cheques and just being able to exist.

**The Chair:** If you could send that brief along to the clerk, I am sure he would distribute it to the members of the committee. I would like to thank you for coming today and giving us this brief. The construction of roads is a very complex, complicated and expensive topic, so it is nice to have some input on this. Thank you very much.

#### EXECUTIVE FURNITURE GROUP

**The Chair:** Our next presentation is the Executive Furniture Group, Mark Miller, president. If you could begin, please.

**Mr Miller:** I would like to thank you for this opportunity to give a presentation to you on a topic that has been of some great concern for me and my business for the last two to three years.

Instead of reading my brief verbatim, I wish to summarize it and expound on some major points. I wish to describe the nature of my business, furniture rental, describe a particular problem with the provincial sales tax as it is related to my business and recommend certain solutions which I hope in turn will be suggested for review by the honourable Treasurer of Ontario.

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I am the president of three furniture rental companies, two in Toronto and one in Ottawa, and we have been in business for well over 40 years. In case you may not know, a furniture rental company rents furniture for residential use and also to companies, but I am here before you to really speak to you about the residential side of my business. My company rents to individuals who wish to acquire furniture for their living room, bedroom or dining room. I also supply homemaker packages which include utensils for the kitchen. I do carpeting, I do vertical blinds, even do maid service. I do everything.

In the past it has been very popular because little credit is required to do so; second, it is very flexible for individuals to do so; and it eases personal financial pressures of money tied up in other things. It is helping quite a lot of people these days especially through the recession.

I also rent to middle- and upper-middle-income people. The gamut would include newly arrived immigrants, students, victims of home disasters, separated or divorced people, relocated employees, including diplomats, and I do have quite a few politicians in the city.

Furniture rentals have always been subject to provincial sales tax, and as a businessman operating in Ontario I have always collected provincial sales tax and gladly considered it my duty to do so. However, over the last 8 to 10 years, a new service industry, which I do have respect for, has gained predominance in the housing rental market, especially in the larger urban centres. This can be described as the furnished suite or apartment hotel or furnished condominium, in other words, units that rent furniture for the

living room, the dining room, the bedroom, that have kitchen utensils, that have maid service and supply everything else, but with one added feature, a shell to put that furniture in. They rent exactly as we do, but they are not subject to provincial sales tax. Often this industry achieves a substantially greater amount of rent because they are furnished suites.

Five minutes from here, on Bay Street, there is a building which, when the building was first created, I rented furniture to in a number of the units. Then the units were gradually converted into furnished suites. Right now, a non-furnished suite in this building you can rent for, say, \$1,200 a month for a one-bedroom apartment. But now, with the furniture in it, it rents for \$2,500 a month. They are not subject to provincial sales tax. This exists in an area—and I am only quoting as of April—where there is a 0.5% vacancy rate in Metro Toronto and it is lower in the city of Toronto.

Therefore, as a business renting furniture and paying provincial sales tax, I feel discriminated against as a business offering the same service. Furnished suites are converting vacant units and transforming them into a business on which provincial sales tax collection is not required, provincial sales tax without the government knowing it has taken on a regressive nature. I say this because the provincial sales tax seems to be encouraging furnished suites by not putting on the provincial sales tax, and is encouraging apartments or condominiums away from the marketplace where the lower- or middle-income people cannot afford to move into these units.

I have two solutions, and I have a feeling I know which one would be preferred if it was taken. The first one is to really make our business equal to their business. When I purchase my furniture from the manufacturers and I pay the GST, I would like to be allowed to pay the provincial sales tax also at that time. I will pay the provincial sales tax so that my customers will not have to pay the provincial sales tax when they rent furniture. Or make it mandatory that landlords, condominium owners or management companies that are renting furnished suites collect from their tenants or from their clients a provincial sales tax which makes up the portion of the furnished suite. Or I should say, they could calculate just how much they are overcharging on the suite for the furniture and collect the provincial sales tax on that portion. That too would make their industry equal with mine. They are in the furniture rental business; I am in the furniture rental business. I am collecting provincial sales tax; they are not.

I feel quite emotional about this only because I know the industry very well, I know the people who run it and they are very nice people. The thing is, I know that when they purchase their furniture, which may be one of the questions you may raise, they often get their furniture from the manufacturer too, but they do pay the provincial sales tax at that point. I just want to have their industry recognized. It is such a new industry here in Ontario that really statistics are very difficult to find out. CMHC just has not done anything to really focus on the furnished suite market. I believe that with further study, this probably will become quite an issue.



In conclusion, my plea is for equality. Let us be equal. We are doing the same service and it should be considered equal under the provincial sales tax.

**Mr B. Ward:** I would like to thank you for coming before us and presenting your concerns from your point of view in your particular service sector. I think part of our committee's mandate is to provide opportunities for individuals and organizations such as yourself and we appreciate your taking the time to come forth.

One avenue for you to take—and you have expressed your concerns before us in a very articulate manner—would you consider perhaps preparing a brief for the Fair Tax Commission so it could evaluate your concerns as well?

**Mr B. Ward:** You can take that under advisement.

**Mr Miller:** Absolutely.

**Mr Hansen:** What about apartments that have fridges and stoves? Are you going to call those furnishings or would you call them appliances? There are a lot of apartment buildings here in Toronto and all of Ontario. Are you including that in the 8%?

**Mr Miller:** Let me put it this way. Often clients of mine need to have stoves, refrigerators, dishwashers and microwave ovens and I collect provincial sales tax for that. Yes, I would include that.

**Mr Hansen:** I just wanted to get clarification there, because this would affect just about everybody in Ontario.

**Mr Miller:** Yes, it would. Or exempt me from charging.

**Mr Hansen:** So the landlord that has two apartments with a fridge and stove would be required to remit to the government for that fridge and stove even though he only has maybe two units like that.

**Mr Miller:** Yes. Again, I feel, for the appliances themselves, that would make up a very minimal part of it. If it was suggested that be exempt from taxation, certainly that would not bother me, because that is very minimal in comparison to what the complete furnished service offers.

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**Mr Hansen:** I think the other thing too is that with a landlord possibly with a fridge and stove, let's say the law came in on 1 May, does he take the valuation of that fridge as being worth \$100 and the stove is \$100 and you charge 8% on that? These are just some questions referred to in the brief and it is something new to me.

**Mr Miller:** Absolutely. When you talk about appliances, though, because that is not really my business—

**Mr Hansen:** It is all part of it.

**Mr Miller:** —and that is a completely different lobby. I was making a comparison of just one apartment before and when I said unfurnished, it did include a refrigerator and a stove. But adding the furniture and the extra services on, it increased by well over 100% in value on a rental basis and still no provincial sales tax was collected on that. That furniture will continue to be rented for well over five, six, seven years before it is renovated.

**The Chair:** Are there any other questions from the committee? Seeing none, I would like to thank you for your brief and for sending it in early enough for us to have a chance to read it.

#### CO-OPERATIVE HOUSING ASSOCIATION OF ONTARIO

**The Chair:** Our next presentation is the Co-operative Housing Association of Ontario; Dale Reagan and Penny Bethke, if you could begin with your presentation, please.

**Ms Bethke:** Certainly. We would like to thank the committee for offering us another opportunity to make a presentation to you this year. My name is Penny Bethke, I am the executive director of the Labour Council Development Foundation here in Toronto. I am also the president of the Co-operative Housing Association of Ontario. Dale Reagan is executive director of the Co-operative Housing Association of Ontario.

The Co-operative Housing Association of Ontario, which we refer to in short form as CHAO, represents the co-operative movement at the provincial level in Ontario. Our organization is made up of members of the Co-operative Housing Association of Ontario which include currently the 12 resource groups that develop non-profit housing co-operatives across the province, the seven federations of existing housing co-operatives and a staff association largely based here in Toronto at the moment, and there are other emerging federations and staff associations across the province that we represent.

We currently represent approximately 25,000 households of co-operative housing in the province, which are scattered among 400 housing co-operatives across the province to date. There are several areas that I guess you would like to highlight in our presentation. I am going to spend my time talking about our first major recommendation on non-profit housing supply and Dale will talk about the other recommendations that we would like to make to the committee.

In our brief, our first point under the issue of non-profit housing supply is that beginning in the 1991-92 fiscal year, the government should include funds in the provincial budget for a non-profit housing program to follow up on the successful but now exhausted Homes Now program.

We know that the NDP government has indicated its intention of initiating a large-scale non-profit housing program in 1992, and currently is undertaking an affordable housing supply strategy planning process within the Ministry of Housing until 1992. But as some people would say until the real thing comes along, we need a strong initiative in the coming fiscal year for a variety of reasons.

I will speak of something that remains very close to my heart. Given that the Homes Now program units have largely been allocated to projects across the province and that all our resource groups have to look forward to in the coming year is an increasingly diminishing federal support for the development of co-op housing, whether it is at the national level or through their cost-sharing agreements with the provincial government, in order to have a supply framework, an infrastructure that continues to exist across the province in regions like London and Sudbury and



tawa and Windsor, we need to have additional initiatives coming from the provincial government to get us through the point in time when a new provincial housing program is developed in the course of the next year and in effect implemented in 1992.

Also, given my own connection with the labour movement, I am particularly sensitive to the fact that we are experiencing a 60% to 70% unemployment rate in the construction trades right now and that housing traditionally, as an economic stimulus, can provide roughly 2.2 jobs created for every unit of housing built.

So it is particularly important, during the recessionary time, that we use a well-known, tried-and-true method that not only deals with the issue of job creation but deals with the incredible need for affordable housing in this province. The economic stimulation that can be provided has to be weighed with the fact that in a time of recession, with a softening land market, particularly areas such as Toronto, we know that this will be a time where we can conceivably buy land more cheaply, build housing more cheaply, and if ever there was a time to invest more provincial money in the housing market, that this was it. We feel that this is the time, in the coming year, where the province stands to get more bang for its buck in terms of delivering housing units and creating jobs. Certainly this is a major reason for us to commend that a special initiative is required for the coming fiscal year.

As I have indicated, we would hope that this initiative would be part of what would be a continuing non-profit supply program, that the government would choose the non-profit and co-operative sectors as a centrepiece of its initiatives in terms of providing affordable housing for rentarians in the coming years.

Certainly the Ministry of Treasury and Economics has apparently provided projections that by the year 2000 there will be approximately 450,000 people requiring rental housing in Ontario. That would mean, in order to meet that need alone, just the sheer growth in population, we would need to develop an additional 18,000 rental units a year. That does not address the need that the continuing expansion of the public housing waiting list also has, that there has been a 60% growth in the last three to four years in the families on public housing waiting lists. The non-profit and co-operative tenure options provide a method for dealing with the full spectrum of need for those who cannot afford home ownership in the low and moderate income bands.

One of the ironic things, I guess the co-operative housing sector in particular, has not always seen itself as a major player in the market, but we are responsible for a large portion of the housing starts in the province now because there is effectively no rental housing market here, unless you consider condominiums that have been built and cannot be sold and are rented out because they just cannot be dealt with in any other way and would stand vacant otherwise. Non-profit housing has been one of the most significant providers of rental housing in the last few years.

I think what is particularly important as well for us as sponsors of co-operatives across the province is that we

offer a choice in tenure for people in non-profit affordable housing initiatives. For some people, the non-profit landlord-tenant model that the municipal non-profits and the private non-profits provide would be their choice. We know, from the kind of demand that we have to attend information meetings for new housing co-operatives under development and the phone calls our housing co-operatives and our resource groups and our federations get, that there is a high demand for co-op housing as an alternative in the non-profit housing tenure form.

Last, one of the other initiatives that the co-operative housing association has been involved with in the last couple of years has been the conversion of existing rental stock. We see this as an important initiative for a variety of reasons. Again, part and parcel of our principles has been the notion that people should have some control in the decision-making about their housing. Tenants have a right to this as well. Allowing tenants to purchase their building from their landlords, do necessary renovations and manage the buildings themselves gives an opportunity for us to provide those tenants with the security of tenure that they have not known in the private rental sector and, second, to address the needs of our aging housing stock for some kind of rehabilitation and renovation, at the very least to try to address energy conservation issues.

In broad strokes, those are the reasons why we feel there has to be an initiative in the coming fiscal year in particular in the non-profit and co-operative housing area. Dale will talk about our other recommendations.

#### 1140

**Mr Reagan:** In order to make sure that we have time for questions, I am going to only briefly highlight the additional areas where we have recommendations. I will touch in particular on housing on government lands and provide a little bit of background there. But I will only highlight without further comment the recommendations in the other areas, so we will simply leave it to any questions you may have for further background there.

Starting with housing on government land, just as a little bit of background, I think all members of this committee will remember that in 1987 the provincial government announced a Housing First policy under which any surplus provincial government land was to be made available for housing development if the land was suitable for housing development, and if it was not suitable for housing development, the funds generated through its sale should be targeted to a housing development fund which would be used for further housing initiatives.

Of course, this announcement was greeted very enthusiastically by ourselves and other housing advocates as providing a major opportunity for the development of affordable housing across the province. However, that enthusiasm soon began to diminish when the promise of this initiative failed to be realized. There are a variety of reasons for that, including a simple inability among the ministries concerned, especially Housing and Government Services, to actually bring the land on stream as quickly as was needed. We have so far to date seen very little of that government land actually made available.



We were also concerned when we heard the details that the policy actually had a de facto requirement that only 35% of the housing on provincial land be made available as affordable housing, and by that was meant the housing that is affordable to people up to the 60th percentile. The effect of this was that 65% of the homes created on government land could in fact be made available to people in the highest 40% of income within the population. So there was a major concern about that. Then we found in addition that the housing development fund which was to take the resources generated through sale of lands and make them available for further housing initiatives was never realized. It is simply a notional fund and those funds have never contributed to further housing development.

So our recommendations are that all surplus government land for housing should be used exclusively for non-profit housing, except on larger sites where we recognize that planning considerations will require some variation on that. But in that instance, all of the housing developed should be affordable, albeit with a component of ownership housing on it. However, any ownership housing developed on government land will need initial and long-term safeguards to guarantee its continued affordability, so it is not only available to meet the needs of the initial owner but continues to be available in the long term.

If this government policy is to have any practical effect, we feel that it is necessary that all provincial ministries and agencies should be instructed to compile detailed inventory of their land holdings and be directed to work with the Ministry of Government Services and the Ministry of Housing in a co-ordinated way to develop an action plan to bring those lands into housing use.

Finally, we are recommending that the government follow through with the initial intention of creating a dedicated housing development fund when land is sold for other purposes, that the funds go into this housing development fund which would be used to generate additional non-profit housing opportunities.

Those are our recommendations in the area of government land.

We have three other areas of recommendation, which I will simply refer you to. The first has to do with the land transfer tax, and our recommendation is that all non-profit housing projects should simply be exempted from the provincial land transfer tax. The current situation is that the government is charging the tax on the one hand and then subsidizing it on the other. The problem is they are subsidizing it with borrowed money, so it is actually costing the government more than it would simply to forgo the tax on non-profit housing. It would be a simple initiative and it would create significant savings.

In the area of how we target government housing resources, we feel that two earlier initiatives, the Ontario home ownership savings plan and the low-rise rehabilitation plan, were both ill conceived and have failed to live up to their original purposes and we do not feel they have a place within the current government housing strategy.

Finally, we feel that, even though it is not currently the issue that is most on people's minds in a soft real estate market, nevertheless it is timely to consider reintroduction

of a speculation tax that would be directed at speculation in non-owner-occupied housing in Ontario. There is some background provided on each of those recommendations in our brief.

**Mr B. Ward:** I would like to thank the delegation for presenting such a progressive and forward-looking document. I just have two quick questions and then I will ask an opportunity for other questions. In today's economic climate—we are in a deep recession and real estate prices are in fact falling in Toronto as well as other areas—do you feel that a speculation tax is still relevant and that your committee should be recommending to the Treasury to explore the concept of a speculation tax in today's economic environment?

**Ms Bethke:** I think it is from the point of view of this is the second recession I will have worked through as a non-profit housing developer. We know what happened after the last recession. There was a great boom in real estate prices. So I would not immediately argue that introducing a speculation tax is inappropriate during a recession but is appropriate during a boom period.

In effect, having a speculation tax on non-owner-occupied housing or on land, if it is in fact the government's intention to provide the kind of stimulus in housing by developing 20,000 non-profit housing units a year, that kind of entry into the land market will fuel land prices whatever you can do prior to that significant entry into the market to hold the line on the softening land prices that have now experienced would be of benefit.

One of the unfortunate timings of the Homes for Ontario program was that it was introduced approximately a year before the peak in the land market. One of the difficulties that many co-operative organizations had when the government announced the program was in trying to go out and buy land once the government had made that announcement, because people thought: "It's the government. The pocket is always deep; therefore, whatever the market will bear is what we can charge these people."

Believe me, we are in a very different situation today with the daily calls from developers who have condominium projects that were ready to go and no market for them. Suddenly they have discovered the world of non-profit housing, which they discovered seven or eight years ago and are back to talk to us again.

So I think what we would like to see is a way of dampening speculation in land, which will always remain one of the three fundamental components of the cost of developing non-profit housing. In order to reduce the initial capital cost and the long-term subsidy cost to finance those non-profit housing projects, we think you can do something about dampening speculation on land.

**Mr B. Ward:** Just to follow up on the two programs you recommend be eliminated, the home ownership program and the low-rise, which you touch on at the back of your brief, is there anything else you would like to expand on about your feelings on those two programs? Are they simply not working or inadequate and the moneys could be spent elsewhere?



**Mr Reagan:** Yes. We have not put these recommendations at the forefront of our brief. They are not very much on our minds. I do not have the figures on the takeup of the Ontario home ownership savings plan, but it has been very small compared to what was originally promised. We do not figure it is going to have a major impact. I guess our overall position is that government expenditures should be directed towards non-profit housing or should be directed to non-profit initiatives rather than providing assistance to housing which takes its place in the market and has no control on its ultimate cost.

This program has so many built-in deficiencies which account for the lack of takeup. It is not a practical mechanism for actually accumulating a down payment on the kind of housing available, especially in the Metro Toronto market. We feel that it is being used largely not as a way to generate savings to purchase a home, but as a tax shelter and as a way to buy into the reduced land transfer tax that is available as part of the program. For a very nominal contribution you become eligible for the reduced land transfer tax, and it is a disproportionate kind of benefit. What the program was ill designed is our main concern, and so we feel it can usefully be eliminated.

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The low-rise rehab program brings us into the much larger area of discussion of how the private sector rental housing industry needs to deal with the aging housing stock. I am sure, as part of the rent control review process, those kinds of issues are going to be examined in depth, but the solution is not to have an open-ended kind of program where there are no tests as to whether the landlord has made an honest effort to maintain the housing over time and it is simply available as a grant if you want it. There have to be some kind of controls built into those programs to make sure that they are going to serve the intended purposes. Those controls simply do not exist in this program.

**Mr B. Ward:** And on that basis you recommend that the program be ended?

**Mr Reagan:** That is right.

**Mr Phillips:** Thank you for your presentation. I would like to get a dimension on the moneys that we should be thinking about. I think in *An Agenda for People* it was \$190 million in year 1 and \$380 million in year 2. Is that the kind of order of magnitude that we should be looking at in terms of including in our budget for your recommendation?

**Mr Reagan:** The figures that are associated with the Homes Now program, the 30,000-unit initiatives, when the operating subsidies involved under that program are mature, over a three- to five-year period in the case of Homes Now it will be something over \$300 million a year, so for 20,000 units a year at maturity, using the Homes Now financing vehicle, we would be looking at \$200,000 to \$250,000 mature subsidies if the financing that was used for Homes Now is available.

In fact, we are very conscious of the very significant costs that are involved in the supply-side subsidies involved in constructing non-profit and co-operative housing

and we are currently working with the provincial Minister of Housing to examine an index-linked mortgage instrument which we developed for the federal co-operative housing program, which has just completed a five-year experimental phase.

Canada Mortgage and Housing has evaluated the instrument and found it to be very successful in reducing the long-term costs of providing funding for housing, so we are recommending that it be introduced provincially. I do not have a direct comparison against the Homes Now financing, but as compared to conventional financing, Canada Mortgage and Housing found that it reduced, in net present dollar terms, the cost 20% over the life of the mortgage.

If the government were to follow through with that kind of initiative, then the annual costs would be reduced, but that is still under discussion. I would say \$200 million to \$250 million in that region, for operating subsidies using current program design.

**Mr Phillips:** I am just trying to get an idea of when we reach your objectives and we look at the budget. You think it would be an additional \$200 million to \$250 million. Is that the way we should think about it?

**Mr Reagan:** Using the ministry's cost figures for Homes Now.

**Ms Bethke:** Yes, and in particular and I am mindful that we are talking about this current 1991-92 fiscal year, if in fact there is a provincial index-linked mortgage instrument that becomes available to use with the future provincial program, then a recalculation of what the exposure in terms of long-term subsidy dollars would be.

We would also have to take account of the extent of our zero-dollar land leases on provincial government lands, and that impact on reducing the costs. There are a variety of ways of having it impact on reducing the costs on financing this program. Certainly, the province can do a great deal about land and about the cost of the money to finance projects.

**Mr Phillips:** But at this stage we should be thinking about \$200 million or something like that.

**Mrs Sullivan:** The area that I represent has had experience over the past five years in a really enormous change of community interest in providing non-profit housing and an enormous surge in co-operative housing involvement. As well, we have gone through a very trying experience in bringing government land on stream and providing an affordability component on that land in that area that happened to be located in Glen Abbey which, as you understand, was planned development, but there were certain attitudes that existed there. That was a relatively small site in terms of government land that is available. How do you define a large site? Are you talking about a 200-acre site?

**Ms Bethke:** Yes, we would call that large. Normally a 10-acre site, I believe, in our policy is where we would say this constitutes a large-scale site. For example, there are half a dozen sites in Metro Toronto that have been identified as sites that the Ministry of Government Services is going to release. My own organization is doing a development on the former site of the chief election office on



Lombard Street, which is a half-acre site. That is the smallest of the sites.

I am not sure exactly which is the largest of the sites, but I suspect it would be the Keele-Falstaff site, the Ministry of Transportation site, near Keele and Highway 401, and that is roughly 10 acres. Obviously, not all communities would see the development of neighbourhoods, for example, like the St Lawrence, coming into their neighbourhood, that scale of non-profit housing development as being appropriate, and even in the St Lawrence there has been mixed development. There is condominium development there as well as non-profit housing development. On that large-scale a site we are not looking to create what people will rationally or irrationally perceive as ghettos. We are trying to create natural communities, and natural communities have an income mix and a wide range of income mix, not in a very narrow income band either for the very well-to-do or for the very poor.

**Mrs Sullivan:** It is interesting representing a riding from outside of Metro Toronto, as I think most of the people in this room do, to see the different concepts of what a large parcel of government land is in comparison with what is considered a large parcel in downtown Toronto. Land holdings in my area are in the 100-acre to 200-acre size.

One of the things that struck me this morning was the Ontario Home Builders' Association's estimate of housing starts. Their estimate was that realistically perhaps 10,000 to 15,000 units of non-profit or social housing would come on stream in the current fiscal year. The government has announced its intention to allocate 20,000 non-profit housing units. Those of us who were involved in really encouraging and working within our communities to get the Homes Now program moving ahead saw that in fact what we had anticipated occurring and hoped would occur over a very short period of time is taking a lot longer period. Are we building too many expectations in the community on the government side by saying, "Yes, we're going to have 20,000"? When do you see that delivered?

**Ms Bethke:** Part of this has to do with having a supply framework that can deliver those units, and 30,000 units projected to be delivered over three years would have been 10,000 units a year. I suspect that in the municipal non-profit and the co-operative sectors, we were better able to move on that. We did not have the advantage that the municipal non-profits have of land banking, for example, so I know one of the major hindrances for the co-operative movement in responding to the initial proposal call was that we did not always have land to attach to our non-profit sponsors, that we had to go out in a very hot market and try to acquire it.

As a consequence, the co-operatives did not get as large a share of the unit allocations under the Homes Now as we thought we could have reasonably expected. The minister at the time, Chaviva Hosek, said to us that the reason for this was that private non-profit groups, like church groups, came forward and surprisingly had land available. My own suspicion is that there may have been a lot of well-meaning but inexperienced sponsors who

wanted to do something and, as neophytes in the housing market, had no idea how complex a process this was going to be.

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I am not sure that even with the most co-operative municipal government—I use the city of Toronto as an example. We have historically seen it being favourable to the development of non-profit and co-operative housing but the planning processes in the city of Toronto are longer than anywhere else. With two- or three-year development time frames to get a shovel in the ground, that is a lot of energy for volunteers to track a process. If there is not an experienced group of people, such as I know exists in the co-operative housing resource groups across the province to assist groups in getting through that process, it does take a long time to get through. But it is fundamentally a very complicated process and the mere announcement of the program during a boom period did not give us fast-track municipal approval and did not immediately give us experienced people who could manage their non-profit projects through the process.

**Mrs Sullivan:** You have not particularly put any emphasis on streamlining the process, but it seems to me that the cry has been not only for the money and commitment but also a streamlined process. I assume you want to underline that again.

**Ms Bethke:** Yes. We made a presentation to the Ministry of Housing several years ago on how at least the administration of the Ministry of Housing could be streamlined. At the time, we were remarkably smug, because basically the ministry turned around and announced what we had suggested it do.

I do not think there is a resource group across the province that has seen any evidence of streamlining in the processes of the ministry. It has been the most galling thing for me, to have spent the energy we did in saying "This is how you could make things work easier," but to guess it is the way of bureaucracy. They were not prepared to take more of a hands-off attitude to let things move along a little more quickly. I do not know what the province can do about streamlining the municipal approval process; that is Ministry of Municipal Affairs turf. I am assuming that carrot-and-stick methods need to be used to facilitate the achievement of the provincial objectives in the housing policy statement.

**Mrs Sullivan:** You talked about maintaining affordability over the longer period on ownership of housing on government land. Has your organization looked at land trusts such as are used in some of the American states and in Britain?

**Ms Bethke:** Yes. It happens that I am the secretary of the board of directors of the Inner City Land Trust in Metro Toronto. There are currently two co-op housing land trusts, one based in Toronto, one based in Ottawa. We are currently having a major debate with the Ministry of Housing around certain fundamental issues. They are not sure the co-operative housing movement can be trusted to have a land trust, in effect to create out of our land co-operative of co-operatives so that our housing remains



affordable and non-profit after the mortgages are paid off down the road.

There are many legal impediments in the incorporations of co-operatives currently and in the agreements with government, but when the agreements with government are terminated we want to see a way of maintaining that asset in a non-profit co-operative sector. The issue of land trusts has been discussed by our movement nationally for the last eight to 10 years. Finally, two land trusts have been created in Ontario and our national organization is continuing to try to develop a policy about what the ground rules for land trusts across the country would be.

At the moment they seem to be primarily a vehicle related to new housing development. When co-operatives already own their land, like any other Canadian they do not know why it should be put into a land trust. The idea of owning the land is good. We have not yet entirely sold the existing housing sector on deeding their lands to a land trust, but certainly some major work has been done so that little over 2,000 units currently of co-op housing in the Metro Toronto region are in a land trust.

**Mr Christopherson:** If you have already acknowledged this during your presentation, I apologize. I was trying to read it at the same time as listening; I am partially successful at that. Thank you very much for coming today. Given the time constraints we are under, I will move quickly to a question.

Under II, item 2, "Ownership housing developed on government lands must initially be affordable (as defined in the Planning Act policy statement) and measures should be taken to safeguard the long-term affordability of such housing." What type of measures did you see? Most things I have heard about so far have been a time period. The criticism of just a time period—three, five years—has been that at the end of that time period you still have the original problem and over the long term will negate the benefits of the original initiative. Did you have anything in mind? Have you thought of any mechanisms that should be looked at?

**Mr Reagan:** Quite frankly, we have not. We have been making exactly those kinds of points to government since the initiative around government land was introduced. There was no target for non-profit housing set on government land, simply the notion that it would be 35% affordable, all of which could be ownership housing with no built-in mechanism for guaranteeing its long-term affordability.

We are not aware of any sure-fire way of controlling speculation on ownership housing over the long term. We know that various kinds of shared-equity approaches have been introduced so that some of the gain that comes upon resale is recaptured and perhaps directed back into further development. That kind of approach might merit exploration, where if there is an increase some of it is used for social purposes.

That is exactly our concern and we are not sure there is a ready answer.

**Mr Christopherson:** Did you give any thought to the idea of the leasing of the land, a 99-year lease, where in

effect the province still maintains control over the land and therefore can put certain attachments to it in terms of what can be done? I did not throw that out initially to see if you came back with it. That was probably the closest thing to an idea that might work that I have heard, and I wonder what your thoughts might be on that.

**Mr Reagan:** Leasing was our preferred model. We prefer leasing to property sector land trusts in the case of co-ops and land trusts in the case of non-profit. We were told that leasing of ownership housing was not on the table, that it would not be achieving the purposes the government had in mind in creating an ownership housing opportunity for people. I think there is some merit there, but at least in our discussions with the previous government—we have not had any discussions with the current government on this—we were told it would have to be a pure ownership model.

**Mrs Sullivan:** Where was that resistance from—MGS or Housing?

**Mr Reagan:** We have dealt with Housing on this. As you know, there is a deputy minister responsible for government lands who has been dealing with this area, and most of our dealings have been with him.

**Mr Hansen:** My question is sort of an answer: that the Ontario home ownership savings plan should be eliminated. It has only been in for two years. After talking to the Ontario Home Builders' Association, taking a look at people who are saving money here in Ontario to get into the private market—I know we all have interest groups. Your interest would see that this be discontinued and go into co-op housing. I am not against co-op housing. I started back in the late 1970s involved right at the very beginning in the Niagara area. It is one of the largest items down there and they want to get more into the rural areas also.

The question comes that we take this money out of the private sector and give it back as RHOSPs or, as it happened once, that you could go out and buy furnishings, and then wind up folding the plan. Do you have any thoughts on this? You said to eliminate it.

**Ms Bethke:** Our sense is that whenever the government—and this includes the federal government—has created home ownership schemes, if the scheme allows \$5,000, \$10,000, \$20,000, what you have effectively done is add \$5,000, \$10,000, \$20,000 to the price of the home. That, for us, is the fundamental difficulty. We do not believe you are reducing the cost of the housing to the first-time home buyer by creating these schemes. All you are doing is raising the ceiling of the price those people are going to have to pay. I think that is part of our very simple sentiments in the matter.

To reiterate our concern, we are very cognizant of the limited financial resources the government has. If you want to invest in housing that will remain permanently affordable, we do not know how you do that in the private ownership market where there is an opportunity for a tax-free capital gain at the end of the day.

Fundamentally, the initiatives for first-time home buyers have always been good for the initial group that has been able to buy those homes. They have won the lottery.

For everybody else, the prices of those homes have risen to market. The people who were involved in the assisted home ownership program schemes 10 to 15 years ago were able to hang on when interest rates went through the roof and their loans became due after five years when their mortgage rolled over. They are the ones who profited from that. But those homes have not remained entry-level homes after the first-time home buyer had gotten them.

We have a fundamental intellectual problem in figuring out how to solve that, because that is the way the market works. It could be that a 99-year land lease, if you could find a mortgage lender who would lend people money on that basis to finance the cost of the home—that was our understanding at some level, that leasing land and condominium ownership did not mix, that you had to have free-

hold title if you were going to have some kind of condominium ownership.

I think those two things are just fundamental in our attitude. I certainly recognize the desire of people to own their own home. We would like them to think about co-housing as a way of owning their own home without the opportunity for speculative gain on an investment.

**The Chair:** I would like to thank you for coming today and giving us this brief on the co-operative movement. If there are any further questions, we could perhaps talk to you a little later on?

**Ms Bethke:** Absolutely.

**The Chair:** This committee is now adjourned until 2 o'clock this afternoon.

The committee recessed at 1212.



## AFTERNOON SITTING

The committee resumed at 1406 in room 228.

AUTOMOTIVE PARTS  
MANUFACTURERS' ASSOCIATION

**The Chair:** I am going to include myself in this and see a quorum here. We will begin with the Automotive Parts Manufacturers' Association. Steve Van Houten is president and Jim Carter is the director of policy development.

**Mr Van Houten:** Thank you very much for the opportunity to appear before the committee and to present to you information about the state of the automotive industry in Canada as we see it, and the ways in which that bears upon or should bear upon the financial, economic and legislative planning of the Ontario government.

I have made arrangements to have a slide projector here and a screen and we are fully equipped. With your indulgence, Mr Chairman, I will use the slides as I go through the discussion. Of course, I would be pleased to entertain questions or interruptions throughout or after, as you or committee members wish.

First of all, just to size the industry for you, to profile the industry a little bit, the automotive industry in Canada is one of the very largest industries in this nation. The industry total, the vehicle sector and the parts sector together—these are 1989 vintage figures—produced approximately \$43 billion worth of goods, vehicles and parts. Most of that is vehicles and about \$15 billion worth of parts. Although these are national totals, approximately 90% of the production in both the parts sector and the vehicle sector in Canada is in the province of Ontario. So we are a \$12-billion or \$13-billion industry in this province.

You should also know that 80% or better of that production total is exported. So we are a major generator of foreign exchange, foreign currency. Almost all of our exports are to the United States. There are from time to time exports to other countries as well.

The employment figures are interesting. Direct employment of 160,000 was shown for 1989 and again 90% of that would be in the province of Ontario. That is direct employment. The spinoff impacts in sectors that produce goods that we consume or provide services that we consume etc, would be about triple that figure. Again, 90% of it would be in Ontario.

You should know, however, that it is a measure or an indicator of the way in which events are moving very rapidly in our industry that those numbers are already substantially out of date. In the parts sector alone, we have lost approximately 10,000 jobs from that figure. We are no higher than 75,000 direct jobs currently.

**Mr Kwinter:** Are those permanent losses?

**Mr Van Houten:** Almost all of them are. There will be very few that will return. Some of course are the result of plant closures, bankruptcies, companies rationalizing or constricting their production and closing down plants in Canada and Ontario as part of that kind of program. Some

are layoffs of parts of the companies' employment staff in the effort to improve productivity.

Basically the trend is downward in our employment. That 85,000 figure is clearly a peak that we are unlikely to reach again for, I would say, many years, not just several years. When the shake-out that is under way currently in the industry is completed, I would guess that instead of 75,000 jobs we will be somewhere around 50,000 jobs, hopefully generating the same level of production adjusted for inflation, etc, as we have now.

In fact, as one noted industry analyst in the United States at the University of Michigan puts it: "Think of it this way: If you employ two people in your business now to generate a certain level of production, you'd better figure out how you are going over the next handful of years to generate the same level of production with one person. But do not be deceived. Your choice isn't between two or one employees, your choice is between one or zero, because if you endeavour to remain at two you will be uncompetitive and you will go broke." That is certainly a reality in our business. There is no doubt of it.

This is really where the automotive industry is located in Ontario. There is a corridor 25 miles or so either side of Highway 401 from Windsor out past Oshawa, with another branch along the Queen Elizabeth Way down towards Niagara Falls in the Niagara area, where probably 90% of that 90% of the Canadian industry in Ontario is located.

This is very clearly the industrial heartland for Ontario. It is certainly the industrial heartland for the auto parts industry and there are a number of towns, cities, communities, counties, villages and townships in that area which depend to a very high degree on automotive parts production. There are not too many cities where vehicles are assembled in quantity, although where there are there are high concentrations of vehicle assembly employment, of course. There are many communities in Ontario where parts production is located in a substantial way.

If you look at what has been happening in the market, this too is out of date. Again, for calendar year 1989 the Canadian automotive market was about a million cars—you see there 999,000 passenger cars—and about half a million trucks. The truck market has peaked out and indeed softened a little bit and the car market in fact in calendar year 1990 is down about 10% from those figures. That is a very substantial drop, very substantial indeed. I would suggest to you that it would be surprising indeed, despite what my colleagues from the vehicle sector may say to you later this afternoon, I will be mightily surprised if we return to 1989 levels of sales in 1991 or if we have any increase at all in sales in 1991 compared to 1990. We are after all in a recession.

This is a very complicated chart, but I can simplify it for you. One of the major problems we have in our industry right now is overcapacity. It is a term that people have been talking about for a number of years in the industry. It was always referred to as a threat. It is no longer a threat; it is a reality. There are about two million units of assembly



capacity in North America which are not needed to satisfy current demand for motor vehicles. That is a lot of jobs and of course a lot of jobs in the parts sector that supports those two million assembly jobs that just are not necessary.

A big part of that phenomenon, the overcapacity problem, has been the advent of the transplants through the 1980s. The left-hand side of the chart summarizes the transplants in the United States. The right-hand side of the chart summarizes the transplants in Canada. If you just look at the column farthest to the right in each half of the chart, that tells you quite a lot, the column that is titled "Jobs per Hour." That is auto industry lingo; it means units of production per hour. It is not a reference to a job that a person has; it refers to the car or the truck.

Looking at the first one, 60 jobs per hour, Nissan's plant in Tennessee in the United States. That means one car or truck per minute comes out the end of the assembly plant. It does not mean it takes a minute to make a car or truck—it takes hours—but they are a minute apart on the assembly line.

The interesting point is this, and from our point of view in the parts industry a very significant point: In the Big Three plants in the United States a typical production rate would be about 60 vehicles per hour, 60 jobs an hour, or a quarter of a million vehicles a year on straight time, steady state production. A Big Three plant in Canada, the same thing, about 60 jobs an hour, sometimes more than that. It depends on the type of vehicle, how it is equipped etc. Out in Oshawa, General Motors is building trucks at 60 per hour. They have the capacity to build cars in each of their two car plants in Oshawa at over 70 jobs per hour. Those are full-sized plants in Canada.

The transplants in the United States are also full-sized plants for the most part. You see job per hour figures in and around 60 or pretty close to it, in some cases exceeding it. If you look at the transplants in Canada, a very different story is told. These are one-half, one-third or one-quarter size plants. They are not economic plants and frankly we have a major problem in trying to sell to them. In fact, we have a major problem indeed trying to sell to the transplants in the United States, because they tend to want to source very locally first before they entertain bids from foreign suppliers, i.e. Canadian suppliers.

Thinking about the Canadian transplants, think of it this way. You are a Canadian supplier. You want to bid on a part for, let's say, the first on the list, Toyota, Cambridge. You have to make investments, maybe add a new bay on the plant for the new widget you are going to make for them, reorganize your production system, tool up, buy some new equipment, train your people etc., all for 60,000 widgets per year. You are competing against the domestic supplier of Toyota in Japan who is probably making a couple of million of those widgets a year and he can make the 60,000 during lunch-hour on Friday. You are probably not going to be competitive pricewise, and very often we are not competitive pricewise.

There is an interesting phenomenon that is related to this one. The transplant assemblers have in many cases brought their domestic suppliers from Japan, primarily, to North America to accompany them and set up shop around

their assembly facilities. About 400 parts companies from Japan have set up shop in the United States and only 19 in Canada.

If you look at the grey bars there, you can see there 1.7 million units of assembly capacity among the transplants in the United States and a little less than half a million in Canada, but that still means we have significantly more than our fair share of 10% of the transplant assembly investment in business. However, it is divided into too many pieces that are much too small and are not economic. We do not have 10% of the parts plants. We have 5% of the number of parts plants, but in fact those plants are on average a whole lot smaller than the average size of those 400 in the United States.

What it adds up to is that about 99% of the Japanese parts investment in production in North America has gone to the US; 1% has gone to Canada. Why? They know that those assembly plants are not economic customers and they are not going to ask their suppliers to come over and make non-economic investments in support of them.

It is a big problem for us, though.

**Mr Kwinter:** You have 400 parts manufacturers supplying 1.7 million.

**Mr Van Houten:** Right.

**Mr Kwinter:** On the other side, you have 19 supplying nearly half a million.

**Mr Van Houten:** Yes.

**Mr Kwinter:** Those 19 are not serving the same purpose as the 400?

**Mr Van Houten:** No. What happens is that when a transplant company is deciding what parts to source locally, there is kind of a natural order of things and you are getting a little bit, from my point of view, into the content question, which of course I would like to discuss.

The first thing they are going to buy locally is glass because if you ship it from Japan it will be broken by the time it gets here. The next thing you are going to buy is tires and seats because they are full of air and it costs a lot to freight them, so you are going to buy those locally.

After that, it starts to thin out really quickly. Even with the low volumes, glass, tires, seats and probably carpeting and maybe the occasional doodad, you will buy locally. Once it gets past that, the economies of scale just are not there. Those 19 parts plants in Canada are all making either very low value added components or else very freight intensive components.

With the 400 plants in the United States, you start to get into a little bit more serious value added type of production—suspension parts, steering system parts, air-conditioning system parts and the like. They are qualitatively different as well as in sizing.

Here is another thing that is going on in the parts industry and it distinguishes us very much. I must emphasize, from the vehicle industry. The yellow line shows the consumer price index. This is in the United States, by the way, but the trends would be similar in Canada. The green line shows the retail price of new cars. Those two lines interweave one another. In other words, vehicle prices have been more or less tracking CPI over the past several



ears. The red line at the bottom shows parts prices. We're not making the same kinds of gains at all. We have suffered since 1982—that goes to 1988 so by 1990—more than a 15% real decline in prices compared to vehicle prices, and in fact now our prices are going down in absolute terms.

The quid pro quo of the long-term contract you get is that your price is going to go down every year in absolute terms. If you sell a part for \$1 this year, you will get 97 cents for it next year and 94 cents the year after that. The vehicle company does not want to hear about your labour costs going up. They should not have gone up. They do not want to hear about your material costs going up. "That's our problem. Deal with it. Get more productive." That is the kind of pressure we are under.

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The latest innovation on this, by the way, is that effective January of this year, a few weeks ago, Ford has set up a system with its suppliers throughout North America whereby in addition to the price decline that is built into your long-term contract, there is a further provision—unilaterally imposed I might add—that for every dollar you invoice them, they will pay you 99 cents. Why? Because they think it is a good idea. You do not get a choice other than to give up the business entirely.

**The Chair:** That is free enterprise.

**Mr Stockwell:** That is exactly the question I was going to put to you. It is free enterprise. Obviously if you are not making money, somebody is going to go out of business, but somebody has to be supplying that part to them at that price and still making money, so what is the point?

**Mr Van Houten:** Sometimes they do it and still make money. Sometimes they do not. For example, I use a different example: At General Motors right now there is a provision in its labour contract in the United States with the UAW that has bearing upon some of this. Right now GM is reintegrating. Instead of out-sourcing, they are in-sourcing. Why are they in-sourcing? Frankly, they are taking business away from Canadian independent suppliers and putting that business back into internal GM plants in the United States. Why? Two reasons: One is that those internal GM component plants in the US are underutilized in some cases. They have excess capacity so they want to fill it up. Sometimes that is an economic decision.

The major reason, though, has to do with what is called the jobs bank in the UAW contract in the United States. What it says was put into their collective agreement for the first time in 1987—maybe it was 1984; frankly, I forget which, but it is still there now. Basically it is a job security program which says that with regard to this issue the company and the union will get together, make a list of parts which are purchased from outside and consult with one another and agree on which parts should be taken away from outside suppliers and brought back in-house.

When they do that, they are in many cases actually increasing their cost. The reason they are doing it is because if they do not do it, they have to pay those UAW workers on the jobs bank anyway. Simplistically, it is like

this: They make a part with \$30-an-hour labour. We can do it for \$15. Therefore they should out-source, right? Except that they have discovered that if they do that, in many cases they will have to pay the \$30 to their internal worker in the United States anyway. So it becomes \$45. They pay him the \$30 to do nothing; they pay us the \$15 to make the part. It is a short-sighted kind of solution and certainly a second-best solution, but they are doing it.

**Mr Stockwell:** That is an interesting thing you have told us. What that has to do with this, I am not sure. The question is, you are producing a product. They are buying that product. They are saying, "We're not going to pay you unless you build it for this." Somebody is supplying it to them for that price. Therefore, I assume somebody is making money.

**Mr Van Houten:** No. In some cases, yes. In cases where they in-source it, as I just told you, they will lose money in a lot of cases.

**Mr Stockwell:** So your 15% decline on billings, what has that got to do with in-sourcing? You are billing them X amount of money. You are losing 15% in the last so many years because your billings have in fact dropped.

**Mr Van Houten:** Correct.

**Mr Stockwell:** So your billings have dropped.

**Mr Van Houten:** Yes.

**Mr Stockwell:** You are still billing them, you have lost 15% and somebody is still making money.

**Mr Van Houten:** We are not making money. Our industry is about a break-even industry right now. The parts industry in other countries may be making some money. The Big Three in the United States, who are our customers and have contributed to our reduction in billings, if you will, may be making some money, but they are making a lot less than they were a few years ago. And they are taking some decisions which are not in their long-term economic interest. They are clearly not in our short- or long-term economic interest and that is why I raise it with you.

**Mr Stockwell:** Finally, then, if I assume that what you are saying is correct, in the next couple of years I should see a lot of those businesses such as yours going out of business.

**Mr Van Houten:** Yes.

**Mr Stockwell:** Because they are asking you to supply it too cheaply.

**Mr Van Houten:** Yes.

**Mr Stockwell:** Then when you go out of business they will be able to find that product elsewhere at the price they want to pay.

**Mr Van Houten:** At least in the short term.

This is another part of our problem, the exchange rate. As I said, we export 80% of what we make. When the dollar goes up, as it has done very substantially over the last three years, that has a very direct, immediate and negative impact on our profitability. What happens is that when you sell your part, which 80% of the time you do to your US customer, he pays you in US dollars. You bring the US



dollars back to your bank in Canada. When you take them to your bank, your banker converts them to Canadian before he deposits them and guess what? Your revenue is not as high as it was before the Canadian dollar appreciated. Nevertheless, we incur our costs in Canadian, and they have been increasing apace.

We did a study about a year ago of the cost-competitiveness of our industry. This chart is taken from that study. What it indicates is that for a typical steel part stamper in Canada, if at a 75-cent Canadian dollar his gross margin was 20%, it is cut in half when the dollar moves to 85 cents or 86 cents, which of course is what it has done.

Canada traditionally was by far the number one foreign source of parts for the United States. This chart is in US billions because it is looking at the situation from the American point of view, our major customer's point of view. We have been shipping them, in US dollar terms, around or about \$10 billion worth of parts every year for a lot of years.

In 1989 we lost our first-rank position to Japan. A lot of those Japanese parts are coming to the United States, of course, to go into the transplant vehicles assembled in quantity in the United States.

Mexico is also a growth area on the horizon, which in the next few years, a short number of years, frankly, is going to be a very substantial and important competitor for us. They are ramping up the scale of their industry considerably in Mexico, and they are also trying to increase the value added quotient, if you will, for their industry.

Historically, and still to some degree today, if you examine the industry in value added terms, this is what you see. The really high-tech stuff, the antilock braking systems, active suspension systems and the like, tends to be manufactured in Japan, the United States and Europe. Historically, and until now, Mexico has been chiefly a source of very labour-intensive parts. Their labour, after all, costs about \$2 an hour in our industry, all in, including benefits.

Canada—it overlaps with each, the up side and the down side—tends to be somewhere in the middle. We have a high percentage and high quantity of stampers, casters, plastic molders, etc.

Now, Mexico wants to move up. When they do and as they do, among the first people they bump into, primarily in the US market, will be Canadian suppliers. We have to move up too. The reason it is a pyramid is because it indicates that there is less room at the top. It is not easy to do.

Some people have the view that our industry is a rust bucket or a rust-built industry. Let me assure you that is not the case. Across the bottom is a list of many different types of computer-based technologies that are in use in our industry. The pink bars show the percentage usage of those technologies in our industry five years ago, the blue bars show the percentage usage a year ago, and as you can see, in every instance it has gone up very significantly.

Another way of expressing that is to examine our engineering expenditure as a per cent of our sales. In Canada, even compared to our competitors in the United States,

through the latter part of the 1980s we increased our engineering expenditures quite significantly.

As we get into a more high-tech industry with more sophisticated technologies, we need the skills base to go with it. In 1985, a little less than two thirds of our industry was composed of unskilled workers and a little more than 10% skilled. By the mid-1990s, just a few years from now it will be about equal blocks, equal components of unskilled, semiskilled and skilled. Only one third will be skilled at that time, down by about half from where we are today.

Where do you get the people who have those skills? You sure cannot hire them. Here the bottom axis of the chart shows a variety of skilled trades and skilled occupations. The blue band shows the percentage of firms that cannot find people within at least a two-month period to fill roles in things like the mechanical trades, engineering trades, foundry workers, millwrights etc. Just looking at the first one, mechanical skilled trades, more than half the people in our industry right now, our companies, take at least two months to find a skilled tradesman in that area and another 10%, 15% or 20% take at least two weeks or two months to find somebody with that type of skill.

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**Mr Fletcher:** What is your industry doing to get more skilled people into the workforce? What apprenticeship programs do you have?

**Mr Van Houten:** It is a big problem that is being addressed in a variety of ways. Until recently we were able in some cases to get people from overseas, from western or eastern Europe, to fill some of these jobs. You cannot really do that any more, at least not from western Europe because our standard of living is not relatively a whole lot more attractive than theirs. They do not feel a great desire to come to the promised land of Canada any longer. So that is a problem. A solution that used to be available to us really is not any longer in a practical sense.

Training of our existing workforce is and has to be a very major piece of the solution for us. Our workforce after all, in total terms is declining in size. On a net basis we are shedding people, not hiring people, and even in absolute terms we are not hiring a whole lot of people. So really it has to be training from within.

**Mr Fletcher:** I realize that.

**Mr Van Houten:** That is a major initiative for us.

**Mr Fletcher:** You have told me what the problem is again and my question was, what has your industry done to try to fix the problem?

**Mr Van Houten:** I believe I told you two things that we have done. One is to bring workers from overseas. That is a solution but it has gone away. Another solution is to train. That is something we are doing and trying to do more of. In fact, we are in discussion and negotiation with the Ministry of Skills Development, Ontario, and Canada Employment and Immigration with regard to new sectorally based training programs.

**Mr Fletcher:** I realize that also. Twenty years ago we knew the problem was that there was a shortage of skilled



workers, and we have always been going to Europe. Yet industry—even now—did not 20 years ago start implementing programs so that we would not be in the situation we are in now. You missed the boat when it came to trying to train the available workforce we had.

**Mr Van Houten:** You may well be right. I decline to apologize for misjudgements that may have taken place 20 years ago.

**Mr Fletcher:** I am not looking for apologies.

**Mr Van Houten:** I was not working in the industry at that time. However, this is 1991. We still have a 75,000-person industry. We would like to keep it as high as we can and be as competitive as we can and we are doing things now and in the future to ensure that we maintain a strong and competitive industry in Canada and in this province, with some difficulty, I must confess.

**Mr Jamison:** What you are saying is that you are willing to work with various partners as far as skills development is concerned at this point, recognizing the ongoing need.

**Mr Van Houten:** We are willing to and in fact we are doing it. We would like to do more. When you are a non-profit industry, which is what we are, and you are in the competitive battle of your life, which we are—and this recession for us is a lot different from the one 10 years ago, which was really a declining demand-based recession; this is a restructuring recession, at least in our industry—there is not a lot of money to spread around. We are going to have some companies die because they have great intentions, great plans and no cash to deliver.

**Mr Kwinter:** Just to comment on that, and you can correct me, I do not know the exact status recently, but Magna, which is the largest auto parts producer in Canada, had its own school and I think it has closed it down.

**Mr Van Houten:** Yes, they have. In fact, we looked at trying to take it over on an industry basis, in co-operation with a couple of government agencies. The timing did not fit and we failed to do it. I wish we had. We are still working on comparable initiatives and hope to bring something to fruition, and in fact expect to this year. But yes, they did have one and they closed it down. It was a great facility. It is too bad they did it. Why did they close it down? They did not have any money. They could not afford it.

**Mr Kwinter:** There is one other problem and that problem is that companies like Magna, Devtek and some of the others go to the trouble of training people and as soon as they get trained they go somewhere else because they now have a marketable skill. Once they have it they can take it and shop around. That is another problem. How do you deal with that, I do not know.

**Mr Van Houten:** No question. In fact, that is a direct result of this shortage. When you have that kind of difficulty in hiring people, it takes you two months to find somebody who has any skill. Then you want to enhance it further, but for another 50 cents or \$1.50 an hour you can get another job really easily down the street. A lot of poaching, as it is called, does in fact take place.

**Mr Fletcher:** If we trained our medical staff or our doctors the same way that industry is training for the future we would be in a lot of trouble with skilled people to take care of our medical profession. I think that industry has been over the years—and I do not mean just over the last 20 years, but before that they were saying, "What we need are more skilled workers, more skilled people to do the job," and they did not get involved then, and now again I hear the same story. I am hearing it every 10 years, the same story, "What we need are skilled people." Yet industry is not pitching in to try to get people. No matter what Magna did as far as one company, it has to be a corporate decision and it has to go across the whole spectrum of industry, not just in the auto parts programs.

**Mr Van Houten:** I do not disagree with you. You are absolutely right. I would not argue that we have done everything that we should have done; we have not. Again, with all due respect, I think the educational system has some responsibility to bear for this. In fact, for example, in dealing with the Canadian Auto Workers and Skills Development and the Canada Employment and Immigration Commission and so on with regard to specific training initiative for our industry right now, one of the key questions is whether or not we should be targeting it at things like literacy skills, numeracy skills, reading and writing. With all due respect, if we have to design a training program that is targeted at that, then that tells me the educational system has made a major mistake, has failed to discharge its responsibility, because I do not believe or accept that it is the business community's responsibility to redo grade 8 or 10 or whatever it may be because it was fumbled in high school.

**Mr Fletcher:** I would tend to disagree with you on the education system because I know the education system is second to none, as far as I am concerned personally. Coming from an educational background, I know what the education system is doing. As far as trying to help out the business community, there are many boards throughout Ontario that already have implemented apprenticeship programs which go through the system.

**Mr Van Houten:** Yes, I agree. I understand that.

**Mr Fletcher:** Now, I think it is partly industry's turn to start taking the ball from there. There has to be a partnership, but not everyone who comes out of our educational system is illiterate.

**Mr Van Houten:** We have a lot of people who do not know how to read and write or count, unfortunately, so I am afraid I have to disagree with you.

**The Chair:** Could we move along with the presentation, because we are running out of time and I would like to get to the end of that.

**Mr Van Houten:** Okay. A lot of other problems and issues and pressures are afoot in our industry. Another source of fresh cost for the parts industry—I will only look at one halfway down the left-hand side: black-box capability. It used to be that the car company would deliver to you a set of blueprints and specifications and ask you to quote the part, how much per part for, say, half a million a year. Black-box capability—that is something a supplier now



has to have—means that the car company comes and says: “Look, I want you to provide me with an air-conditioning system, about two and a half pounds, delivering so many BTUs of air-conditioning power for a car of such and such a size. Go away and design it, engineer it, prototype it, validate it, test it. Then, by the way, quote it. If I decide to give you the business, then you can make me half a million a year at the new improved declining schedule of prices which I may decide unilaterally to take down further.” The point is that it is tough to make a buck in our industry and it is tough to stay alive in our industry in Canada right now.

We need to be competitive. What does that mean? It means we have to be good, a lot better than we are, at creating and applying and protecting new technology in Canada. I would say in our industry we are mediocre and not better on average at that.

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We need a strong supply of low-cost capital. We do not have any low-cost capital in Canada for our industry. We need a skilled, flexible and motivated workforce. Again, we are probably okay, but that is not good enough. Trade needs to be a national priority. I think it is in our industry. We export 80% of what we make. Trade policy needs to be a national priority for us and I do not think it is.

A few indicators of competitiveness: You could draw up many lists and the story would probably not vary a whole lot. Corporate income taxes: In Ontario we are about as good as the traditional US jurisdictions, slightly worse. Personal taxes on management are a whole lot higher in Canada than they are in the United States. Our wages in Canada are higher than they are in the United States by a significant amount. We are the high-cost jurisdiction here in Ontario as far as wages are concerned. That is partly offset by the fact that social costs are a little bit less expensive in Canada for the company than they are in the United States because the government picks up more of the tab, if you will, but that in turn rebounds back into personal income taxes.

When you look at that chart, the only area where Canada is appreciably ahead of the United States is in social costs. In other words, we lost three and won one. That tends to be the case in most charts of indicators that tend to be used in our business.

**The Chair:** Are those all quoted in American dollars?

**Mr Van Houten:** No, those were all Canadian dollars.

**Mr B. Ward:** I have a question. Are we going to flow through and then ask questions or are we going to ask questions as we go along?

**The Chair:** Sorry, you are right. I just needed a clarification on that.

**Mr Van Houten:** Shall I stop or go ahead?

**The Chair:** How much do you have left?

**Mr Van Houten:** Not too much.

**The Chair:** Okay, if you could finish and then we will have a few minutes for questions.

**Mr Van Houten:** This chart indicates relative changes in manufacturing labour productivity, output per person,

zeroed on the US, the US remaining constant at 100 since 1951. For many years Canada had the second highest degree of productivity in industry among the G-7 countries. We lost that status in the mid-1970s. We are now in fifth place, with the US still at the top, so our labour cost is the highest. Our productivity is fifth best. It used to be better. It has been declining in real terms since.

Manufacturing unit labour cost performance: Labour cost performance means that the lower your performance, the higher your costs. Again, compared to the other G-7 countries, Canada has had a labour cost deterioration. In other words, our cost has increased relative to our major competing industrial nations.

This is a difficult chart to read. It makes, I think, a simple point. Across the bottom are many, many areas which impact directly or indirectly on our competitiveness: everything from wages to pension costs to legislation in areas such as pay and employment equity, environmental regulation, things like exchange rates, interest rates and so on and so forth. The point is this. Using any of the bands, say the orange band, one jurisdiction might decide “All right, we’re going to be high wage and high pension and related costs. We’re going to have to make up for that in order to be competitive by being lower than average in some other areas. The green jurisdiction—I cannot read from here exactly; maybe that is California—has decided that it is going to have very stringent environmental regulations. But if they are, then if they are going to be competitive overall they have to make up for it in some other way.”

I get the feeling that in Ontario we are trying to be in the reddish-coloured band across the top. We want to be a leader in everything. We want to have indexed pensions when no other industrial jurisdiction with which we compete in North America has that. We want to have pay equity when nobody else has it. We want to have very stringent environmental regulations. We want to have very stringent health-care regulations. We want to have high wages and we do have high taxes. Our interest rate is high and our exchange rate is unfavourable. You cannot be a leader in all of these fields on a sustainable basis. It is not possible and it will not take place. We are shedding jobs as a consequence.

All right. This is the last chart I have, Mr Chairman. There are a number of things that I think our industry needs to remain competitive. Not very many of them cost very much money. With regard to people, we do need assistance, I think, with training. That means we need financial assistance from government because we do not have enough money to do everything we need to do.

We also need a good integrated program, which we are in the course of developing with government and with the labour movement. I think our educational system does not yet have a sufficiently technical focus. We need to increase the supply, in other words, of people who have the kinds of skills that industry is going to require over the next many years.

Flexibility: That is an item I have not talked about in this presentation, but it is something which we need desperately and which we lack. When the CAW, for example, issues a policy statement, which it did a year ago,



ying that team concepts and quality circles and the like e bad because they are instruments of management propaganda and are against workers' interests, that is desperately bad news for our industry. It is absolutely the wrong way to go. If we are not going to make our labour force productivity quotient higher in terms of the price of labour or hour, we have to get better in terms of flexibility. We e nowhere near where we need to be.

**Technology:** Yes, we need a greater focus on that. I ould say that with the federal government, we have been successful in rearranging and in some cases liberalizing e system of R and D tax credits as they apply to our industry. That is good.

With regard to trade policy, I think we need to change e North American content requirement in the free trade agreement. The former provincial government in Ontario agreed with that position. I should say that all of the major constituencies in the industry in both countries agree with at position with two exceptions. One is the group of companies which own transplant firms in Canada—not ose in the United States that I am aware of—and the other is the federal government of Canada, which obviously is hewing to the interests of the companies that own ansplant assembly operations in this country. We think at is a mistake. We are not competitive with the Canadian dollar at the level it is when we have the other elements in our cost profile at the level they are at.

With regard to our social policy, frankly we cannot afford the social packages and regulatory packages that we are burdened with right now. I fear that our province and our country are on the course of embedding an entitlement mentality, if you will, that is going to ensure that we are permanently uncompetitive with countries with which we must compete and do compete every day, and we are losing a lot more than we are winning.

With regard to the finances of the province, the reason I think much of this has some relevance for you is that our industry, employing the number of people it does, generating the revenues, taxes and foreign exchange that it does, is under severe pressure, is losing ground a lot faster than is gaining ground and is not going to be the strong source of employment and production and technology in the future it has been in the past unless some changes are made.

That is the end of the presentation. I will be happy to take any questions or comments.

**Mr B. Ward:** I would like to thank you for the fine presentation from your association's perspective on the ramifications of this year's budget on your industry.

Just a quick question. You mentioned the lack of skills in our labour force. I concur that we do have a long way to go. As parliamentary assistant in Skills Development, I am very interested in promoting that aspect where we have a highly skilled workforce. The only problem is, how do we get from where we are to where the future should be?

**Mr Van Houten:** Correct.

**Mr B. Ward:** It was through the work of the previous liberal government that we signed a sectoral agreement with the electronics industry, which I think is a major

achievement. It is one of the few times where the industries and the organized agents who represent labour as well as government have managed to agree that there is a problem, let's work together and solve it.

Do you feel there is that level of trust in your industry as there is in the electronics industry between the industries and the organizations that represent the workers so that we can achieve this type of agreement? I know we are working towards it. The concern I have here is that level of trust.

**Mr Van Houten:** I cannot evaluate the question about the comparison of the level of trust. There is sufficient trust that we are in fact working together in the development of a program that I think will be similar in structure to the electrical industry one, that I hope will be at least as effective as the electrical industry one. The proof ultimately will be in the pudding, I suppose, but I am confident that we will do it successfully. My colleagues at the Canadian Auto Workers share that confidence, I believe. We have had a number of discussions with them. As I say, we hope to have something in place in calendar 1991 along the lines of what was done in the electrical industry.

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**Mr B. Ward:** What can I say? That should have an immediate or short-term influence on upgrading the skills level as well as working with labour, government and business towards an overall, long-term strategy of upgrading our skills.

**Mr Van Houten:** Yes. That does not mean we do not have a long-term supply problem, because we do.

**Mr Stockwell:** We were reasonably competitive in the early 1980s, it seems to me.

**Mr Van Houten:** Yes, I agree with you.

**Mr Stockwell:** Now we are in the early 1990s, and you are telling us we are not competitive. It seems that is the bottom line.

**Mr Van Houten:** That is right.

**Mr Stockwell:** I am not disagreeing with you. I do not think we are competitive either, frankly. The question I have is, how did it happen? Did we lose our competitive edge or did everyone else simply become more competitive, or is it maybe a combination of both?

**Mr Van Houten:** It think it is both.

**Mr Stockwell:** In fact we have suffered through a process that has cut through our competitive edge, and everyone else has decided to get in the ball game and has become more competitive. It is just that simple?

**Mr Van Houten:** No question, yes, it is just that simple. We have lost our competitive edge in a couple of ways. One has to do with the dollar. Frankly, when we had a 72-cent dollar, we were banging out parts like crazy and having fun and making a lot of money doing it. It was not difficult, in fact it was easy to turn to our workforces—which, by the way, had made concessions and the like and had gone through some tough times in the very early 1980s—it was easy in the mid-1980s to turn to them and say: "All right. You are asking us to share the wealth? We will." Our labour costs increased significantly.



Frankly, when boom times are on, governments begin to think, "Now is probably a pretty good time to think about implementing some new social programs," which the economy can afford to bear and to provide. That is all great. But when the dollar goes up, demand goes down. Other new competitors with some pretty impressive capabilities make their presence felt. That begins to look like a house of cards that you have built. Your competitive profile deteriorates. That has certainly happened.

**Mr Stockwell:** One quick point. I agree it is a house of cards. To a great extent, that is what it has been built on through the 1980s, a house of cards. What if the dollar just jammed back four, five, six cents tomorrow? If the dollar jammed back four, five, six cents, would you be immediately competitive?

**Mr Van Houten:** No. If the dollar does back up four, five, six cents, that does not mean that we instantly have black box capability, which we do not have enough of, and until quite recently were not asked or required to offer. Neither does it mean that all of a sudden there are a couple hundred thousand new tool and die makers available to us. Those guys are not there. Yes, it would help, but it is only part of the solution.

**The Chair:** I would like to thank you for your presentation.

**Mr Van Houten:** Thank you very much, Mr Chairman, for your time and that of the committee.

#### ONTARIO TRUCKING ASSOCIATION

**The Chair:** Our next presentation is the Ontario Trucking Association; Raymond Cope, president. You may begin.

**Mr Cope:** Thank you, Chairman. My name is Raymond Cope. I am president of the Ontario Trucking Association. I have with me today David Bradley, who is vice-president and general manager of the association. He is president-designate. He will succeed me in the month of June. With us is John Sanderson, a vice-president of CP Trucks.

We are here today to talk to the submission we have made to this committee. I take it that copies of this submission have been circulated to members of the committee. We are not going to go through it page by page, but we are going to talk about the issues and their overall basis.

Right now, the trucking industry in Ontario is hurting, hurting very badly. A couple of years ago we undertook a study of the trucking industry and we found out a number of things, some of which are referred to in this brief. It showed how important the industry was to the province of Ontario. It revealed to us that there is a workforce in the trucking industry numbering some 230,000 and that generally it was an important cog in the Ontario wheel.

We do not have 230,000 employees in the trucking industry any more. We are losing jobs at a fairly large rate. We have not got the exact count for the past year, but we feel that the number is something over 5,000 jobs which have been lost. They have been lost basically in the transport or trucking sector and lost to competition with Ameri-

can carriers who have sizeable advantages over Canadian carriers in terms of costs.

The American carriers have lower equipment costs, lower interest costs, lower labour costs. They have better depreciation rate schedules. They have lower fuel costs. Right across the board, they have an advantage, and when we sum those figures, we find that the American trucking industry has a 15% to 20% cost advantage to Canadian carriers.

Of course, with the deregulation that came into the province two years ago and at the federal level three years ago—and we are not here to protest deregulation any more; we fought that battle and lost—one of the things that was clear is that those who put the deregulation package together did not really build the economic safety nets that were going to be required by a trucking industry as it came face to face with the increasing competition. Thus it is in the transport or trucking industry where at one time Ontario carriers were a majority, we are no longer the majority in terms of the trucks moving across the border. The majority has swung clearly to the advantage of the Americans, and that is growing day by day.

In the trucking industry in Ontario, the response to this has been for companies to try to improve their productivity and they worked very hard at that. But to overcome a 15 to 20% cost disadvantage is a serious challenge indeed. What we find today is more and more Canadian companies are becoming American companies. Companies are either moving south of the border or they are developing subsidiaries south of the border and operating the service from American points.

This is not one or two companies. We have a whole host of companies that have done this. We can think of Canada Transport in Belleville that is moving progressively south of the border. We can look at Frederick Transport down in Dundas. We can look at Bill Thompson in Thomas. CP Trucks have been putting more and more of their faith into CP America because they can operate from a lower cost base.

These are factors that we think are important not only to the trucking industry but to the provincial economy. The trucking industry has contributed in an important way to the economy, and now its chance to do that is being eroded by this competition. We are looking and we have been before the provincial government, both the previous government and the current government, to draw their attention to this phenomenon and point to things that we think they can do and they should do to assist the industry in offsetting this American cost advantage.

Things we have pointed to, as are revealed in this green book, we have asked for a temporary reduction in fuel tax of a cent a litre, we have asked for the removal of the sales tax on equipment and labour, at least for a period of time. We have asked at the federal level and we have asked the provincial government to assist us at the federal level in securing removal of the four-cent-a-litre excise tax on fuel and we have asked them for assistance in getting a depreciation rate schedule, capital cost allowances equivalent to Americans.



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All of these things now are under active study. There are seven different studies going on at the federal level in the trucking industry, and there is one study being undertaken here at the provincial level. We expect that we are going to start seeing some of the results of those studies soon. The majority of the studies, though, will not be complete until the summer, and by the summer more companies will have gone. A company we just heard from the other day, which has been a major name in the province of Ontario, Laidlaw Carriers, has indicated that it is placing bets on developing its operation from the American side.

So all of this is going on and is to some extent irreversible, but there are still companies that are in the process of making up their minds. A lot of companies in the industry could go out of business today if they could but they find they cannot sell their equipment. Nobody wants to buy their equipment.

Combined with the deregulation phenomena and the increased competition phenomena we have the recession phenomena. We go through these from time to time and we expect that we will come out of this one, but when you combine the three of them together, you have an excess supply and a reduced demand. When you have excess supply and reduced demand for services, the prices go down, and if the prices go down, your profits go down.

The average trucking company in Ontario is losing money today. Most trucking companies are losing money and, as I say, a lot of them would like to go out of business if they could sell their equipment.

We have set forth in this brief some of the things that we would like this committee to focus on in terms of the things that government should do if it wants to maintain the trucking industry in the province of Ontario.

We have talked about the tax measures that I have already mentioned. We have also pointed to what we call compensation for loss of value of operating authorities. That is a situation brought about by the fact that a lot of companies that are in the business today have on their books authorities, licences, which they purchased by buying up other companies in days gone by to get the access to the routes that those authorities would convey to them. They might have paid \$300,000, \$400,000, \$500,000 for a licence, and that had value. When you went to the bank, you could borrow money against the value of that asset. But with deregulation, those assets became worthless and the bankers said, "Hey, you don't have anything now to secure any loan that you are asking for."

We have suggested both to the federal government and the provincial government over the past two or three years that they do the same thing in Canada they did in the United States when they deregulated. When they deregulated, they compensated the carriers for the loss of value of their operating authorities. They allowed the carriers to write off their losses against income tax otherwise payable over a five-year period. We thought that seemed to be a reasonably good formula and we have recommended that that get consideration here.

We have brought that argument before the federal government in connection with the deregulation that they gave rise to, and you should understand—and I imagine there are some people who are new to the committee—the trucking industry is made up of carriers that are federally regulated. Those who operate across borders are federally regulated; those who operate solely within the province of Ontario are provincially regulated. You have the federal rules applying to one group of carriers and the provincial rules applying to another group of carriers.

There were carriers who were deregulated provincially and carriers who were deregulated federally, but in both cases they lost the value of their operating authorities through deregulation. We have looked at both levels of government to bring forward some compensation scheme. Thus far, we have not been able to secure that objective, although both the Treasury people and the Transportation people have shown some interest in the argument.

But a lot of carriers, the small carrier, the small family-owned company, has looked at those operating authority values as their pension, just as taxi drivers who operate in the city of Toronto look at their licences as their pension. When they come to the day that they can no longer operate their service and they sell their licence, it provides them their pension. It is the same thing in the trucking industry. That is gone.

We point in our brief to other things that we feel you should be aware of. We talk about the railway tax lobby. The railways are in bad shape, in as bad a shape as the trucking industry, and they have been trying to retrench, reduce their costs and improve their marketing capability. Part of their plan, though, is focused on trying to jack up taxes on the trucking industry. We think the arguments they brought forward do not prove the point. Even their own studies show they would have to triple the taxes on the trucking industry to even come close to bringing about a diversion of freight back to the railways.

When you look at the fact that something like 90% of the freight carried by the trucking industry is not divertible, if you increase the taxes on the trucking industry the only thing you are doing is increasing the cost to the shippers and manufacturers and the cost to consumers. In a North American free trade market, that would certainly be disadvantageous for Ontario.

We talked about highway infrastructure. Ontario at one time was a leader in roads and highway development and had a fine network of roads and highways. This was certainly true in the period 1960 through to 1975. People from all over the world would come here to see how we had created and sustained such a fine network of roads and highways. Back in the early 1970s, the amount of money put into highways and roads started declining and it stayed that way for about 15 years. It was only in 1988 that the previous government decided, "Hey, the congestion problems out in the roads are growing"—there were problems of maintenance, the infrastructure—and started to put some money back into it. We only hope the current government sees fit to give high priority to highway development because it is badly needed. One only has to travel on



any of the major routes in the province to see that there is a need for additional capacity or a need for improvements.

Environment is a high priority with the new government, and we share the views of society in general that improvements have to be made in the environment. John Sanderson, who is to my right, has been leading a team within the trucking industry to map out a program where the trucking industry can fully contribute to the improvement of the environment. I am sure he will be glad to respond to questions on that, but it comes to the point where the question is: How do you fund all of these environmental programs?

Some people started talking about carbon fuel taxes. We have cautioned them in terms of determining the kind of programs that achieve their objectives. Just to increase taxes on fuels, for example, is not necessarily going to clean up the contribution the trucking industry made to air pollution. The program should be directed towards the fuel itself and to the equipment that is used to burn those fuels.

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We also pointed out in our brief that we saw where the current government felt a need to provide \$5 million of financial assistance to the Algoma Central Railway because they wanted to protect 400 jobs in the railway industry. We had to point out to the government that if you are going to start protecting transportation jobs, a trucking job is just as important as a railway job. We have lost, as I said at the outset, over 5,000 jobs in this past year, and we have been looking for government programs that might stem that tide. We recommend to government that when it comes forward with programs of assistance or subsidies to the transportation industry, it does not look at it just one mode at a time: Look at it across all of the modes to see how they interrelate and how they combine to serve Ontario.

These are the opening remarks I wanted to make. As I say, the important thing for the trucking industry is some kind of action now. Without action the trucking industry is going downhill very quickly. A lot of companies are going out of business. I was looking at a list the other day of the 20 biggest trucking companies in Ontario in 1979, and out of those 20 companies, 12 are gone. I project that by the year 2000, out of that list of 20, 17 will have gone; that is the rate of attrition of companies in a very, very competitive world.

The trucking industry has always been competitive. We do not back away from competition as long as we are playing on a level playing field. But the Americans, in the case of the transporter trucking market—and they are making inroads even into the intraprovincial services in Ontario—have these advantages that somehow have to be put right if the Canadian industry is going to survive.

**Mr Hansen:** I was in the trucking industry myself quite a few years ago, and I had the same problems with insurance and fuel costs and cost of equipment. It is something that is really affected, especially with the deregulation now in Ontario. I take it, and I have not been in that industry for a while, that you lost your so-called milk runs, is that not correct?

**Mr Cope:** We have lost a lot.

**Mr Hansen:** I am talking about the main, profitable runs. In some places in the north you still need trucking but they are mainly concentrated down in the southern part of Ontario; coming in from the states, fueling in the states without having to fuel here in Ontario, and going back across the border. This is what I can see is a big problem. In Quebec, if I am not mistaken, you show a fuel bill for how much fuel was purchased in Quebec to run in Quebec.

We are listening here. You have some ideas down here. I do not know whether they would help in the short term; it says each one is temporary. I do not know if you have some other ideas not in here. I have not been able to see the whole thing; maybe you can relate to us some of the other points.

**Mr Cope:** We have proposed to the Minister of Transportation that he give consideration to putting a moratorium on the issuance of licences. Deregulation has given everybody a chance to get licences to where they want to operate, within Ontario, or across from Ontario to another province or to the United States. That has been going on. There have been a lot of licences handed out in the last couple of years, probably more in the last two years than in the decade previous to that.

This increase in competition has really come so fast that very few companies have been able to digest it. As I say, the average trucking company today is losing money. Some of them are going out of business and others are just living as long as the bank keeps them in there. We have asked the minister to look at introducing a moratorium to freeze the licence situation for two years, let the economy catch up with the capacity that is now out in the marketplace. The capacity is huge and there is no shortage of competition. Any shipper in the province can get no end of quotes to provide the service he is capable of providing.

**Mr B. Ward:** I do not know if you can answer that. You may have the stats in front of you. Since the province went down the road of deregulation, how many trucking companies that were based in Ontario have disappeared? Do you have the ballpark figure?

**Mr Cope:** The best we can say is that it is dozing. Any of the major transporter carriers will have shifted or part of their operations to the states. If you look at bankruptcies, which are only part of the picture, for instance, in the first 11 months of last year bankruptcies were up 132% over all of 1989. We see that acceleration now that we are mired deep in a recession.

**Mr B. Ward:** You feel in the short term that if a moratorium is placed perhaps the trucking companies that are on the border may survive or at least give them one aspect of survivability?

**Mr Bradley:** It will provide some breathing space, but I think a lot more needs to be done. The reason we have characterized the tax measures we are talking about as temporary is because we see that if, after a certain period we are able to introduce other programs and make other adjustments as the market settles, then perhaps we can start to lift those off or do other things. The new Ontario government has embarked on, as Mr Cope has mentioned,



major study of operating costs and the tax competitiveness of our industry. It is hoped that arising out of that we can start to seek some meaningful longer-term solutions. They may not all be tax measures. There may be some programs in terms of enhancing productivity or what not.

But the fact is, we cannot wait until next June or July when the studies are done, because at that point the patient will be dead.

**Mr Kwinter:** I want to follow up on that same thought. You tell me that of the 20 top companies 12 have gone, and you figure that by the year 2000, 17 of them are going to be gone. Is that all through attrition or are there some consolidations taking place?

**Mr Cope:** A lot of them are through mergers. Some companies merge because it is a meaningful fit between their root structures and it makes sense to do that. Some companies merge because they are on the slippery slope to bankruptcy, and to merge with another company that has some deeper capital reserves can maintain that relationship. The list I am talking about is made up a lot of companies that have merged. There is a great number of them. DNT took over Dominion Consolidated a few years ago; Dominion Consolidated was a big company, it was on that list. Reimer purchased Inter-City; Inter-City was on that list. The Motorways organization acquired Direct Transport, which was on that list; it has acquired Kingsway, which was on that list; it absorbed Consolidated Fast Freight, which was on that list. So a lot of that has been through mergers. Another one I would mention is that Hengerry absorbed Thibodeau-Finch. That is where these major companies are mainly exiting.

**Mr Bradley:** But it is not just the majors. Look at the family owned establishments. Just in the past year we have seen Hendrie Transportation in Brampton sold out; Cronkwright Transport in Simcoe sold out; Corneil Transport in eastern Ontario sold out to Canada Transport. We are seeing, I think, much the same situation we saw with the family farm. The family trucking firms are getting out of business or trying to get out of business. The sad part of it is that a lot of our members would like to get out. They are holding auctions on their equipment and nobody shows up to buy it, and they have no choice but to stay in business. They are watching their retirement just vanish before their eyes.

**Mr Fletcher:** Two quick points. The safety of the vehicles on the road is a major concern to a lot of people, especially driving along the 401 or any other busy highway; and also the amount of environmental impact. I understand have some things you are working on. We can work together to alleviate these problems.

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**Mr Cope:** I think Mr Sanderson can respond to that.

**Mr Sanderson:** In the area of environment, this has in the last six months or so become a major interest of the industry in terms of perceptions about trucking and what it does to the environment. We have been working to adopt an environmental code of practice for the trucking industry that deals with the areas of energy conservation, with effective waste management, with environmental preserva-

tion in general, as well as safety, which is tied into our environmental program. We have been holding meetings, not just within the industry but with environmental groups in Ontario, in Toronto particularly, and are now beginning to look for meetings with the government to deal in the whole area of environmental practice.

In the area of safety, we have in the last couple of years worked with both federal and provincial governments to establish a very substantial safety system that deals with driver training, hours of service, equipment maintenance, general equipment practices. We believe that in general we have a much stronger basis for safety in the industry now than we have ever had before.

Increasingly, there is a serious question about whether all of us can continue to maintain those safety programs, whether we can in fact live within those standards we have all developed and ascribed to, because our financial situation is deteriorating very rapidly in the trucking industry. We are probably the largest carrier in the province at the moment, but our volumes are slipping, we are losing business to American-based carriers. Our profitability has slipped from a 1.5% loss in 1989 to a 3.5% loss in 1990, and that is a very substantial sum. We just cannot carry on on that basis.

The safety question is very vital, as is our ability to implement the environmental things we want to do. We have provided many ministries, particularly Transportation, with options that would improve our productivity and our profitability without direct tax relief or government money assisting the industry, and we are very hopeful that some of those will be implemented. Environmental changes are one of the major areas.

**The Chair:** I am going to be a little arbitrary here. I am sorry to have to cut off the questioning at this point. These are very good questions, but our delegations are starting to back up. It is beginning to look like Pearson International Airport. I would like to thank you for coming with your presentation and your handouts and say that your concerns will be noted and looked into. Perhaps if others have questions they could mail the questions to you or phone you and have their questions answered.

#### PHARMACEUTICAL MANUFACTURERS ASSOCIATION OF CANADA

**The Chair:** The next presentation is the Pharmaceutical Manufacturers Association of Canada, the Honourable Judy Erola, president.

**Hon Mrs Erola:** Good afternoon, and a special hello to some of the familiar faces on the committee. It is good to see you. We are pleased that you have offered this opportunity to present our views in this committee.

With me today is Gordon Postlewaite, who is our director of scientific research at the Pharmaceutical Manufacturers Association; Jacques Lapointe, who is the chief executive officer of Glaxo, located here in Ontario, and chairman of our Ontario committee; and John Pye, who is our director of public affairs. We will try to skim through our opening remarks very quickly in order that we have some time for questions.



The Pharmaceutical Manufacturers Association represents 66 of the research-based companies of varying sizes engaged in research, development, production, marketing and servicing of original, brand name, pharmaceutical products. Forty-one of these companies are based in Ontario, employing 10,500 highly skilled workers. We contribute an estimated \$1 billion annually to the Ontario economy, according to Statistics Canada. A 1989 PMAC survey showed that 29 of these Ontario-based companies reported \$1.5 billion in assets, almost \$100 million incurred in income taxes against sales of \$606 million in Ontario and \$895 million in the rest of Canada, so I would say that Ontario is the most direct beneficiary in terms of the research-based pharmaceutical industry.

We are very proud of our contributions to Canadian health care. The dramatic declines in mortality and morbidity statistics in the past few decades are due, in part, to the availability of new and effective drug therapies brought on to the market by our industry. For example, new medicines have helped to reduce death from strokes by 40% and death from heart attacks by 25% in the last decade alone.

Data from the Department of National Health and Welfare on approvals of new chemical entities between 1985 and 1989 demonstrate that over 90% of all new medicines were developed on a global basis by members of PMAC, and we have an appendix which shows this.

Quite apart from the incalculable people benefit of these therapies, they have made a significant contribution to the bottom line of Canadian health care. Numerous studies have documented the relative advantage of drug therapies compared to surgical and chronic care alternatives which take up a substantially larger share of Ontario's health bill, as you are well aware.

Even though medicine is increasingly more able to meet the health care needs of the public, per capita annual increases in health care costs have not increased substantially. Canadian health care expenditures, as a percentage of gross national product, have increased by only 1.5% over the past 10 years. I think that is a very important statistic to bear in mind. However, we do realize that the public's increasing demand for medical service is placing an upward pressure on the health budgets of all provinces and of Ontario in particular.

We have noted the concerns of Dr Martin Barkin, Ontario Deputy Minister of Health, as recorded in the 1989-90 annual report, that it is estimated that health will take up more than half the province's budget by the turn of the century. He further commented that Ontario cannot continue the spending pattern that has emerged in the last 10 years in health care spending.

In this presentation we will focus principally on that portion of the budget which pertains to the Ontario drug benefit plan, which we will refer to by ODB from here on in. In fiscal year 1989-90, \$647 million was expended on the ODB. This constitutes 4.6% of the \$14 billion spent by the Ministry of Health. When pharmacists' dispensing fees are extracted from the ODB costs, the actual cost of the medicines goes down to \$446 million. This is 3.2% of the Ministry of Health budget or 0.18% of the provincial gross

domestic product, which we explain because a relatively small amount is really the bottom line, given the significant therapeutic benefits and cost-effectiveness of modern medicines.

It is, however, the case that the costs for the ODB program have increased by 64% between 1985-86 and 1989-90. According to the Ministry of Health data, the cost of actual drug products has increased 68%, while pharmacists' dispensing fees have increased 55% in the five-year period. But it is very important to note that the cost of drug products to the ODB program is not the manufacturers' selling price. For one thing, there is a 10% upcharge payable to pharmacists on top of the manufacturers' selling price. I think that we have to balance these out when we look at gross figures and when we begin to analyse those figures and where the actual money is spent.

It is also important for us to come to terms with the growth and the costs of actual drug products in this period. In the first place, there has been a 22% increase in the number of claims in the ODB program, reflecting the increased demand on the system. Price increases would make up some of the difference, approximately 46% growth over four years or almost 12% per year. Again, this includes a 10% upcharge.

This increase occurred, we should point out, when there was a 50% increase in the use of generic products in the ODB in this period. The substantial increase in the use of generics was substantially brought about by the passage of the Ontario Drug Benefit Act at the end of 1986, though it should be noted that the generic sector since 1969 was also benefiting from the absence of any effective intellectual property patent protection of brand name products.

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The ODB program uses a method called best available price, or BAP, in an effort to provide purchasers with the lowest selling price, net of discounts and incentives, for a given pharmaceutical product. The product, listed as having BAP on the ODB formulary, is the product of choice not only for ODB prescriptions, but by the provisions of the provincial drug cost regulation act it is also the product which will invariably be used in the cash or non-ODB market, which creates quite a problem.

As it pertains to those products which have been assessed by the Therapeutic Quality Review Committee as interchangeable, the manufacturer with the BAP for such a product is assured market dominance regardless of the absolute value of the difference in price between competing products. Even if product B is only one cent more than product A, market ownership goes to product A.

We believe that the BAP method of setting prices has failed to provide the benefits of fair and rigorous competition between products. In our opinion, this has been a contributory factor in the significant increase in the cost of pharmaceutical products in the ODB program. The result has been for generic companies to be able to dominate the interchangeable drug marketplace by virtue of their low cost structures. It has furthermore resulted in generic drug companies being able to price their products closer to the



and name price and still be listed as having the best available price.

The report of the Pharmaceutical Inquiry of Ontario, chaired by Fred Lowy, estimated that a generic version of a brand name product will "generally fall between 75% and 85% of that of the innovator's product." Given this, the price of a generic drug can theoretically eclipse the introductory price of a brand name within a few years.

The inquiry was categorical in saying that "since costs and marketing expenses of generic products are relatively low, and the market can be sizeable, the committee feels that recent initial generic prices have been unnecessarily high."

The inquiry also commented that more favourable differentiation of brand name and generic prices occurs when more than one generic copy is on the market and competition between the generics supposedly exists. However, a careful examination will reveal a tendency for different generic versions of a brand name product to virtually equalize over time. We have an appendix that shows that as well.

In order to create a more competitive environment, two key factors must be considered. The first is that a fair and competitive pricing system must replace the current BAP system, which only encourages rising prices. The most desirable system, in the opinion of this association, is one of actual acquisition cost, whereby the government and cash customers pay the actual cost of acquisition of the product by the pharmacist plus a reasonable inventory charge and the dispensing fee. This system provides transparency and accountability, two factors which we feel are essential to the responsible management of a government program. We feel that this transparency and accountability are lacking at the moment.

The second factor in creating a competitive environment is to eliminate effective mandatory substitution of generic products by ensuring that consumers are given the opportunity to choose between available products, and in the case of ODB recipients to have the right to pay the difference. Increased participation by health care consumers is a stated goal of the Ministry of Health and the element of choice, and informed choice, must be a key factor in achieving this goal.

We consider it encouraging that the Lowy inquiry, although stating its support for the BAP system, recommended that brand name products be available to ODB beneficiaries, even if they are priced above the best available price. We are not suggesting that the ODB should be paying anything but the lowest price—as taxpayers we support that—but we feel that consumers ought to have the freedom of choice and the right to pay the difference.

It should also be pointed out that the producers of brand name, patented products are bound by the regulations of the Patented Medicines Prices Review Board. This agency, enacted with the passage of Bill C-22 which restored partial patent protection for products, is responsible for ensuring that increases in the price of patented products are kept within the rate of inflation.

The second annual report of the PMPRB demonstrated that the prices for existing patented products, in other

words those that were on the market when the board was created in 1987, "have increased,"—I am quoting directly from the board's report—"at an average annual rate of only 3.2%, considerably lower than the CPI." The introductory prices for patented products are also regulated by the PMPRB and are conforming to the standards of the board, according to the report. We would remind you that generic prices are not subject to the regulations of the PMPRB. Given the steadily declining price increases for patented medicines, we see as completely unjustified the recommendations of the Lowy inquiry pertaining to roll-backs and restrictions onwards to less than 50% of the CPI.

The introductory price of new medicines reflects the considerable time and money involved in bringing a new product to market. It has been calculated by Tufts University in Boston, based on a rigorous economic evaluation of almost 100 products, that the cost exceeds C\$200 million over a 10- to 12-year period.

The services offered by pharmaceutical companies in the introduction and marketing of a new product are also not widely understood. Our industry provides a unique and indispensable role in providing health care professionals with detailed product information, post-marketing surveillance which provides useful information on adverse drug reactions, and support of continuing medical education activities. These activities are underwritten by brand name companies. Importantly, revenues from the sale of brand name products are used in the continuing search for tomorrow's pharmaceutical therapies.

**Mr Postlewaite:** Maybe I can switch the focus a bit here and look at some possible opportunities for future savings in Ontario's health care system and building on Ontario's strengths for research and development investment in the province.

First, addressing access to future medicines, it was stated earlier that the work of our industry has made substantial contributions to modern medicine. The future of pharmaceutical research is even brighter as advances in biotechnology open new vistas on our understanding of the causes of disease and our ability to develop therapies for them.

There are over 200 new medicines in development at this moment. This list includes 87 for cardiovascular diseases such as hypertension, angina and stroke, 65 medicines for various forms of cancer and 15 for Alzheimer's disease. More than 50% of the industry's R and D investment is focused on diseases that afflict the elderly.

The cost-effective impact of these new medicines on Ontario's health care bill will be sizeable. Alzheimer's disease is just one example. There are an estimated 42,500 cases of Alzheimer's in Ontario. The annual direct and indirect costs are \$24,000 per patient for a total cost to the Ontario health care system of \$510 million. That probably eclipses what was spent for the entire Ontario drug benefit plan in the last fiscal year.

We therefore do not accept the recommendations of the Lowy inquiry which would restrict access to new pharmaceutical therapies such as those in development. The suggestion has been made, recommendation 4.2 of the Lowy



report, that the Ontario Drug Benefit Formulary should be frozen indefinitely. This is not the only recommendation or measure which has been made by the Ministry of Health or already instituted to limit access to new therapies and technologies in Ontario. It is our position that such policies cannot be defended as either good economics or good medicine.

Efforts are being made by the Ministry of Health to move to more community-oriented health care delivery systems. This can be an effective strategy to achieve more cost efficiencies vis-à-vis existing acute and chronic care facilities. It is perhaps not fully realized that the achievement of this strategy, however, and its goal of improved cost-efficiency will to a large degree depend on the availability of effective medicine which will allow patients to be adequately and quickly treated in these facilities and then enjoy a better quality of life in their own home environments. I think this cannot be overemphasized, the importance to our seniors of maintaining their independence in the home setting.

The producers of these effective medicines, today and tomorrow, are the makers of brand name products, the members of PMAC. The Lowy inquiry, among others, wrestled with the concept of assessing the cost-benefit of these new products. The problem is that at present no consensus exists on a standard formula to determine what is a favourable cost-benefit ratio or the criteria that should be used to measure it. However, PMAC does support the inquiry's call for more research into the question of pharmaco-economics and we would be fully prepared to participate in this process with you.

Pharmaceutical research and development: What we all agree on is that medicines as a whole are very cost beneficial in the health care system. By implication, pharmaceutical research, which will produce new and effective medicines, is of unquestioned value. It is a common misconception that little of this research is done in Canada and even less by the private sector of our industry. In point of fact, however, pharmaceutical research conducted by PMAC member companies is recording the fastest growth of any industry in the country. Eight of the top 50 individual R and D performers in Canada are pharmaceutical companies.

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The Patented Medicines Prices Review Board, which also monitors R and D investment by our industry, noted that in 1989 total pharmaceutical research expenditures increased by 47.7% from those in 1988. Almost 47% of this total, almost \$107 million, was spent in Ontario.

Investments in basic research were up 76.6% over 1988, dispelling another common myth that no basic research is done in Canada. R and D expenditures by companies to universities and hospitals were up 47.3% over 1988. I need not remind you that you that you have six faculties of medicine and affiliated teaching hospitals and a college of pharmacy in the province of Ontario.

PMAC members have already announced plans for over \$1.4 billion in new long-term R and D as a direct result of the passage of Bill C-22, and added to current

expenditures that will have an accumulative total of billion by 1996.

Let us look at building on Ontario health research. The value of pharmaceutical R and D to Ontario cannot be underestimated.

In a submission to the Ontario government by the deans of Ontario's five faculties of medicine in December 1989, they noted that the policies in Ontario affecting the pharmaceutical industry have the effect of creating a climate which "is perceived as unfriendly to innovative R and D and will result in Ontario continuing to lose significant growth opportunities in the health care industry," and that those losses are to other areas of the country. They urged the government of the day to "consider ways of creating a positive investment environment and improved relationship with an industry committed to R and D for the future growth of Ontario and Canada."

To make long-term investment decisions, however, the industry requires a predictable and a supportive investment environment. With legislation in Ontario which effectively mandates substitution of generic products, the perception is that this environment is not as supportive as in some other provinces in Canada, or most other countries for that matter.

The submission of the deans of medicine indicates that real opportunities exist for a strengthened R and D presence in Ontario. You have an excellent infrastructure for pharmaceutical companies account for about 21 cents of every health research dollar spent in Canada. This outweighs the contributions of provincial governments as a whole.

Let us just take a quick look at how Ontario compares with other provinces in their support for funding and medical R and D at their universities: \$2.39 per capita compared with \$11.69 in Alberta and \$5.10 in Quebec. For a high technology based province such as Ontario, that is a very good record.

Also, the deans have addressed the problem of not having access to the federal transfer payments under Bill C-22 which totalled \$36 million to Ontario and not one penny has been made available to the universities.

Because of rapid developments in pharmaceutical research, many of our members are forging closer links and joint ventures with those universities in order to exploit their respective strengths and resources. This is time given that the many universities and research faculties are in financial need due to the dropping off of public sector funding.

It was pointed out that \$106.7 million of current expenditures have gone to Ontario; that is, 46.6% of the Canadian total. Twenty-three million dollars of that is extramural in Ontario universities and their affiliated research institutes direct from the industry, direct from PMAC members.

In the university-industry program, Ontario has 31 of the total 73 awards and grants offered for a total of \$13 million, again, cost sharing between the federal government and our members in Ontario. Our health research foundation has 28 researchers in Ontario universities who are being funded, totalling over \$300,000 per annum.



If Ontario is to remain competitive in the global marketplace, it must build a stronger research and development infrastructure. This is a basic principle that has been recognized by the current and past government of Ontario. What we need is a new pharmaceutical policy in this province.

The Lowy Report noted the potential for increased investment as well as the requirement on industry's part for a favourable climate for this investment. It called for a political decision to deal with the tradeoff in balancing the advantages of "keeping drug costs and prices low against the advantage of creating a climate in which drug manufacturers will wish to invest in research and manufacturing activities in Ontario."

As stated earlier, we are of the position that a policy which intervenes to discriminate in the marketplace in favour of the generic sector does not automatically keep drug prices low.

The report also comments that "policies that encourage the growth of one segment have tended to be detrimental to the other." I refer you to page 65 of the report. Certainly it is clear which segment of the pharmaceutical industry current policies in Ontario are encouraging.

The two major privately owned generic pharmaceutical companies in Canada rank number one and number two in terms of the number of prescriptions filled with their products and they rank number two and number three in terms of sales in 1988 in Ontario. Of ODB prescriptions, 45% are generic products.

The Dr Lowy committee also observed, "While the entire Canadian market grew by only 1% in 1988, the two leading generic firms grew by 6% and 4% respectively," far ahead of the industry average. It has been estimated that, as existing patents expire over the years ahead, the generic sector will be able to grow three times as fast as it has in the past in Canada.

But opportunities exist for the research-based pharmaceutical industry to expand not only its R and D presence in Ontario but also its manufacturing potential. Given the international or global structure of most of our member companies, there is considerable potential on the basis of regional and global product mandates to export volumes equal to 30 times the level of sales for that product in the Canadian market alone and Ontario, which serves as a viable base for that export business.

Before concluding, I would like to make reference to and to table a totally independent study PMAC has commissioned by the Inter-University Working Group on Prescription Drug Use, entitled Benefits and Costs of Prescription Drugs in Ontario. It is appendix C of our presentation. Submitted to the Lowy commission on November 1988 and chaired by Dr Walter Spitzer of McGill University, the submission was one of the most expert reports presented to the Lowy commission, and we regret very much that its recommendations were virtually ignored by the Lowy commission. We encourage you to consider them carefully. Mrs Erola, back to you.

**Hon Mrs Erola:** I think there really is a need to examine the pharmaceutical industry in this province from a number of perspectives. The cost benefits in new medi-

cines need to be examined, and access to new medicine should not be restricted for purely short-term cost-containment measures. These medicines may in the long run prove as beneficial economically as they are therapeutically.

It is clear to us that the goals of improved economic performance in the province as well as achieving better health for Ontarians are not mutually exclusive. Their reconciliation, however, requires vision and the willingness of both stakeholders to work together, and we are especially anxious to work with all of the players here in Ontario, because we feel that the strength of Ontario in the field of research and development and manufacturing is critical to the growth of Ontario generally. This is where the bulk of the industry is, and as citizens of Ontario we, too, would like to see it grow and see it helping Ontario.

**Mr B. Ward:** Two quick questions, just for elaboration: When Bill C-22 was passed, what benefits did your association receive? Second, given that the introductory price of new medicine always seems to be higher than what the generic companies can produce, could you give us an elaboration of why that is and go into a little about the R and D, etc?

**Hon Mrs Erola:** Let's answer the first question. What benefits came to the pharmaceutical industry with the passage of C-22? In the immediate term, very few, because the legislation itself carried pipeline protection which assured a steady flow of generic products coming on to the market. We probably will not receive the full benefits of the bill for another five years, and even then the protection will be fairly limited in that it only provides seven to 10 years, as compared to the kind of patent protection which is enjoyed by all of the other developed countries such as the United States and the European Community and Japan, which is 17 years, and they are now looking at patent restoration. So in the short term very little.

**Mr Postlewaite:** Can I add that that protection is conditional upon prices not increasing faster than the consumer price index and the introductory prices not being deemed excessive by the board?

**Hon Mrs Erola:** Which brings me to the Patented Medicines Prices Review Board. It is what I call carrot-and-stick legislation, and that is the stick. The industry, and it is no secret, is not happy about the Patented Medicines Prices Review Board, because it has two big teeth. It can can deem a price to be excessive, upon which it can withdraw the patent protection and issue a compulsory licence on that product; the other tooth, or the other shoe, if you like, is as well on another product from the company. That product does not necessarily have to be a product on the market today; it could be a product that is coming down. They can decide. "Maybe this company is going to have a big blockbuster down the line and we will withdraw protection for that."

What did it provide the industry in the short term? Very little.

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**Mr Lapointe:** I can probably give you an example of our company and make it very succinct. Since the



introduction of Bill C-22, our company has lost the potential of more than \$100 million in sales to generics, on products that have been genericized since then. We have increased our research spending by \$25 million and have yet to see a product that is protected by Bill C-22 coming out of our pipeline. It is short-term pain for, hopefully, some long-term gain.

**Hon Mrs Erola:** Hopefully.

The second part of the question is: Why are the generics cheaper? That is the easy one to answer. That is because, of course, a copy is always cheaper, when you have no research and development costs, when you have no marketing costs and when you can, as they say, cherry-pick: You will find a copy only in a market where it is extremely profitable; you will not find a generic copy of a product with very limited therapeutic use.

**Mr Lapointe:** Probably 80% of our products do not make a substantial return, probably never do better than break even, if that. So 20% of our products carry most of the burden for the others. They are, of course, the ones that get cherry-picked, as Judy mentioned, those that develop a large market. When we have to balance our expenditures, each of our products cost \$200 million, on average, to develop. For the equivalent cost for a generic to be put on the market, you can take a couple of zeros out and you will probably have an approximate development and introduction cost. So we have to recover those on both the successful and the non-successful products; the generics only large ones.

**Mr Postlewaite:** Once the market is developed, if you do not have a slow growth in volume, within the first six months a product becomes genericized the innovative product loses 30% of the market and within the first 12 months it has lost 50%. There is a very rapid commencement of return on very low investment for the generic copy once it is on the market.

**Mr Pye:** Notwithstanding that, as was commented on earlier, Dr Lowy's report says generic products tend to be priced within 75% to 85% of the innovators. I think that is a telling remark.

**Hon Mrs Erola:** He felt, given the limited costs of bringing the product to market, that their costs should be a lot lower than they are relative to the innovative product.

**Mr Kwinter:** First, I want to say how appreciative I am of the CPMA and its member companies and the contribution they have made to Ontario. This is an area I have been following for some time, and I have had many discussions with the people who are appearing before us. I have a concern that I have expressed to them, but I would certainly like to get it on the record.

I still in my mind have not quite come to terms with why this is not a particular solution, the solution I am going to propose. I recognize that member companies of the CPMA under Bill C-22 have an opportunity, either seven or 10 years, to recoup their R and D, their marketing, their clinical trials, all of those things, but that at a given period that protection runs out and the generics cherry-pick and they jump right on it.

What I do not understand is why a company like Glaxo, or anyone else, would not anticipate that in the first year it is going to lose 30% of that market and in the second year it is going to lose 50%, why it would not. "We are going to put on the market a competitive product to the generics. It's going to be a no-name, no-frills, private-label product to at least make sure that if they are going to compete with us, they're going to compete on an even playing field," which in fact will not even be true because you are the guys who invented the product. You should be in the best position, if they are going to come to be really competitive and not just edge up to just beat your product so they get the best price available.

I have not quite come to terms with why that can happen, and I would like to hear an explanation.

**Mr Lapointe:** I could probably start an answer on that one. First, patent protection does not run out after 17 years on all of the products that are currently marketed. There are only a few, as I mentioned, that are covered by the new rules.

In the case of our largest product, it was genericized after four years on the market, with no advance warning. It is very difficult to make plans to put together a new product overnight. What you have is a generic product that can come in two cents below the price of ours and it might take the market, because by regulation that is the way the system works in Ontario. Some of our companies have indeed eventually come up with a no-frills product but it has taken time. The distribution system is a very important part of our marketing capability. Once that distribution system, through the pharmacies, is well into the hands of a specific brand of generics, it becomes very difficult to penetrate it, because we are talking about pennies on the edge, aside really making the whole difference as to who gets the business, simply because of the best available price system.

Our problem is that best available price was put in place to try to encourage competition, and by the admission of those people who came up with this thing, it is not working. It is not creating competition; it has done just the opposite. It has created a regulated system where a small price difference on a prescription will determine which fills that prescription.

**Hon Mrs Erola:** For the record, two of our member companies have embarked on subsidiaries which do not produce the products. They have done it, as one of them stated very clearly to another committee not so long ago, not to compete on a price basis, because they said you will not recapture the market, but to protect the integrity of the product, because that particular product is genericized in Canada and their product is distributed worldwide.

It was their feeling that if they were going to market this product worldwide, they had to ensure that the same quality of product was going to be marketed here in Ontario and that any problem with the product would reflect on the originator's brand, because as it stands now whenever there is generally an adverse drug reaction traced to the originator's product. Therefore, the integrity of that product has to be maintained.



That was one of the reasons they went into the field. They knew they were not really going to recoup any of the investment in it. It was simply to protect the integrity of the product.

**Mr Postlewaite:** That is also a very risky approach to the marketplace, in this respect—I think the generic companies have already admitted it in a presentation to the general Senate hearing. They are the first to admit that once you start on this slide, you effectively commence a process of cannibalizing the market. That was their own problem. As soon as there was more than one generic on the market, you get into a price war and cannibalizes the market prematurely, before that market offers a fair opportunity to return on investment in it. So it is hazardous.

**Mrs Sullivan:** I wanted to pursue the argument you made related to the drug benefit plan, particularly asking if your proposal for the actual acquisition cost would mean there would be a geographical distortion in your pricing of products based, say, on nearness to—talking about the acquisition and buying out of pharmacies.

**Hon Mrs Erola:** I see what you mean. Yes, they do think those who have access to larger volume discounts would have a competitive edge.

**Mrs Sullivan:** Or geographically.

**Hon Mrs Erola:** Or geographically, yes. I cannot see that that would happen in any way. Jacques is the one who usually markets products. Do you see the disadvantages of that?

**Mr Lapointe:** Most of us have a single price policy throughout the country, and more than half of the industries ship directly to pharmacies as long as they have something like a \$100 order, which is probably the size of three prescriptions, on average. So I cannot see it happening too many times. I am trying to think of circumstances where there would be that kind of distortion and I cannot think of any.

**Mrs Sullivan:** But on the volume discount question, there would be no difference for the chain operation that purchases in larger quantity than—

**Mr Lapointe:** As I said, most of the companies do not give volume discounts on prescription medicines. It is a no-price policy.

**Hon Mrs Erola:** And if that were to occur, that would reflect in the cost, at any rate.

**Mr Lapointe:** Maybe this is why you do not have volume discounts: As soon as you do that, your best available price goes down and you get penalized by the current system.

**Hon Mrs Erola:** If the volume discount is indeed used and used, which is why we feel that actual acquisition cost, where those volume discounts should be clearly reflected in an invoice, is the transparent and accountable way to deliver.

**Mrs Sullivan:** I have a second question relating to that. Have you done an analysis of what the projected

impact of your proposal, the AAC versus the best available price, would be, say, in current year dollars?

**Hon Mrs Erola:** It has not been done in Ontario, but there was an analysis done of Nova Scotia and British Columbia which are in actual acquisition cost. British Columbia, which has the lowest drug cost program in Canada per capita is on actual acquisition cost.

**Mr Postlewaite:** The Nova Scotia study is an interesting one and might be useful to you, because it was done independently out of Carleton University. They started to measure the province a year before they moved to actual acquisition cost, from artificially listed formulary prices to reimbursement based on actual acquisition cost, and they compared the cost to the drug program in the two years. They came up with some startling findings on how cost-effective actual acquisition cost can be to the system.

**Hon Mrs Erola:** British Columbia follows that and so does Saskatchewan. There are variations of it, but actually the BAP as it exists in Ontario is really unique to Ontario and most restrictive.

**Mr Postlewaite:** I think the point Mrs Erola made earlier about actual acquisition cost is most important. It is transparent and accountable. In any of the other systems, there may be savings in there but they are elusive. You do not know where they go into the system; they just evaporate. They certainly do not go back into creating savings for the province's plan.

**Hon Mrs Erola:** I think I alluded in my introductory remarks to the fact that there was a cost of 68% they noted in terms of drug costs, but the fact is that these were not strictly drug costs in terms of cost to the manufacturer. The manufacturer was one, but then there is your 10% up-charge and then there is that rather grey area that falls between the cracks.

**Mr Postlewaite:** If you do not reimburse on actual acquisition cost, then you have to list a price at which you are going to reimburse, an artificial price. The tendency and the experience in Ontario—it is on the public record—is that when you have an artificially listed price, manufacturers, highly competitive, will sell below. The margin between what you are paying for it and what the pharmacist actually pays for it is called spread, price spreading. It is an inherent problem in the way the ODB is structured now. It certainly does not create cost savings for the government.

**Hon Mrs Erola:** Which is why we feel that when it is clear, when an invoice shows this is the actual acquisition cost, no matter what the discounts have been, that is what the taxpayer is actually paying for that product.

**Mrs Sullivan:** Basically, by regulation or legislation, a margin of profit to the pharmacist plus a dispensing fee.

**Mr Postlewaite:** They need an operating overhead and they need a professional fee, and that has to be added on top of the actual acquisition cost, but that could be negotiated with organized pharmacists and they can tell you what their costs are.

The provinces that do have it do spot audits, the way you make sure you are only paying what the pharmacy



actually paid plus that markup in fee, and it is very effective.

**Mr Phillips:** Just a quick comment. By the way, the Ontario drug benefit plan is another \$150 million, probably funded the Ministry of Community and Social Services, as you probably know.

**Hon Mrs Erola:** That is right.

**Mr Phillips:** I know there is a battle between Ontario and Quebec for your industry. Two things: Can you give us any insight on trends, where the industry is heading, to Quebec or Ontario? Second, is the amount of product and revenue that you now export growing as an industry, because I gather one of the hopes of the bill was to develop a big export industry?

**Hon Mrs Erola:** I will answer the first part, and I am afraid I am going to have to leave right after that, because I have a flight to catch.

**The Chair:** We do have another deputation in a couple of minutes, so we will be wrapping up.

**Hon Mrs Erola:** The Quebec government a couple of years ago took a look at those industries which it felt had the highest potential for growth and payback in the province. They said, "Which are the industries we want to target as growth industries?" and they targeted the pharmaceutical industry. All of their government policies, both from the Minister of Health and the Minister of External Trade level, have been geared to making sure that the province creates an environment that welcomes the industry and brings more dollars in terms of research and development into the industry as well. That was a conscious, very real act on behalf of the Quebec government. That has been very helpful and it is one of the reasons you are seeing a much larger growth in R and D dollars going into Quebec. They have created an infrastructure.

I would like to add to that just a couple of examples. In Quebec they have the Fonds de la recherche en santé du Québec, a federation that we call the mini-research council of Canada; it is a counterpart to the Medical Research Council of Canada. It in turn has made a whole series of connections with the teaching hospitals and the universities, creating a network that responds instantly to the needs of the pharmaceutical industry in terms of research and development.

We are at the fledgling stage with the universities here in Ontario, but the support that is given directly by the Quebec government is very real and tangible.

**Mr Postlewaite:** We consider Quebec to have about two thirds of the population of Ontario, but if you use the federal Patented Medicines Prices Review Board's second annual report for 1989, you will see a total of \$106.7 million in Ontario, which is 46% of the Canadian total. Quebec has 43%, with only two thirds of the population, at \$98.3 million. This is R and D dollars. If you look at laboratory research, bricks and mortar research, Quebec gets 67.8% of the share, compared with 23% in Ontario. Ontario gets 50% of the clinical research, which is largely extramural, done in the clinical setting, human testing. Quebec gets 30%. But there is a peril in that for Ontario, because clinical research is very portable and it can be

started and stopped and picked up and moved much more easily with shifting political winds.

**Hon Mrs Erola:** Does that answer your question?

**Mr Phillips:** The only one is jobs, but if you have something you can send me that would be useful.

**Hon Mrs Erola:** We would be very happy to follow up.

**Mr Phillips:** In trends, I know where we are now. That was one of the things. The other was just Bill C-22, to develop export business, I would not mind knowing if that is working or not.

**Hon Mrs Erola:** I would like to make one brief comment on that. When you looked at the original legislation of 1969, that was designed to create a Canadian industry with exports. That was the thinking of the time: I know something of the history of the bill, having been very involved in it. The thrust of the 1969 legislation was to open the generic industry a foothold to come into Canada, because to develop an industry in Canada that would do that. What we have seen is the growth of a generic industry that has not gone into the innovative sector, although it has in some ways been successful to a small degree in exporting to Third World countries, again, but only in those countries where patent protection does not exist.

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**Mr Jamison:** You mentioned that R and D, from the time you start to work on a product to the time it hits the market, being at about \$200 million on average.

**Mr Postlewaite:** Over.

**Mr Jamison:** Obviously, that is an average price per product. What was the breakdown beyond that? For your own benefit, is that something you possibly could get to me, where the moneys are actually spent?

**Mr Postlewaite:** That is a global cost. New medicines today are developed by a company globally around the world, in its operations around the world. One in 10,000 discoveries in the research bench make it to the marketplace. That one success, that about \$268 million Canadian covers all the losses along the way.

**Mr Jamison:** That is part of it, and that is fine. What we would like is a better breakdown of that figure.

**Mr Lapointe:** How much is basic, how much is clinical. On average, and we can provide you the numbers, the discovery part is somewhere between 25% and 33% of the total cost of bringing a product to market. The development—that is, to test it and prove its effectiveness and safety in human beings and prepare all the documentation for the regulatory authorities—is about two thirds to three quarters. That is in a well-run company.

**Hon Mrs Erola:** And growing, given the number of regulatory authorities in the system.

**Mr Jamison:** I would like that information so I can get a better handle on it, rather than just the figure itself.

**The Chair:** I can see you are ready to go. On behalf of the committee, I would like to thank you for your presentation.



# MOTOR VEHICLE MANUFACTURERS' ASSOCIATION

**The Chair:** The next deputation is the Motor Vehicle Manufacturers' Association, Norm Clark. Would you like to introduce your other guests?

**Mr Holman:** I am Jack Holman, Ford Motor Co of Canada. I am supervisor of customs and trade, and under that avenue comes commodity taxation.

**Mr Adams:** I am David Adams, from the Motor Vehicle Manufacturers' Association. I work with the taxation committee.

**Mr Clark:** We have a brief statement. I will not give a lot of background.

The Motor Vehicle Manufacturers' Association has 18 member companies, the Big Three and four truck makers and Volvo Canada Ltd. We are responsible for something in the order of 80,000 direct jobs in Canada, about 30,000 of which are in the parts area and the balance supervisory and white-collar jobs and assembly. So we cover two major sectors. The spinoffs, if you use the Statistics Canada input-output model, would probably bring us up to something like 550,000 jobs in the country. Beyond that, there are many levels of activity. I would like to get into the remarks very quickly and then save as much time as we can for questions.

Our remarks today are these: In terms of the Canadian industry generally and this comes as a result of meetings we have had with other sectors recently, there is agreement that during the upbeat economic times following the 1980-recession, governments imprudently refrained from taking the hard decisions to curb their spending to the degree necessary. Now, with recession once again visited upon us, the ability of governments to cushion its effect is lost without further increasing their deficits and debt. Tax revenues went up during the expansion, but so did tax rates in Ontario and indeed in Ottawa.

On industry's part, during the expansion years of the middle 1980s, Canadian firms enjoyed success in large measure due to a low Canadian dollar. The question was whether to forego immediate profits in order to restructure for the future or to take the chance that restructuring and the investments necessary could be carried out later. Some industries and companies delayed the inevitable; others such as ours and others also facing intense international competition made massive investments in facilities, technology, product development, raising productivity and quality, while also increasing production volumes.

A variety of factors have now converged upon us all, requiring that both governments and industries convince Canadians of the gravity of the deficits and debts problem. Governments could then reduce spending, Canada could increase national productivity, and industry could take better advantage of the Canada-US free trade agreement and better meet global competition at home and abroad.

In terms of federal and provincial sales taxes, we would like to remark that the goods and services tax will assist Canadian manufacturers and therefore the national economy by eliminating federal sales tax from production costs and from export prices for Canadian goods. It ends

the sales tax advantage of imports over domestic Canadian goods.

Industry and the economy now needs to have those same advantages extended to the provincial sales tax regime. While we are pleased that the Ontario sales tax will not be levied on the GST, the MVMA urges Ontario to respond to the insistent need for integration of the retail sales tax with the goods and services tax. Benefits would include lower production costs, added to significantly by reduced administrative complexity and the costs that represents.

In terms of Ontario's competitive position—that is a phrase I am sure Mr Kwinter recognizes from past days—it is clear that for some time Ontario's competitive advantages as a capital investment host have been slipping away in comparison with project costs in other Canadian and US jurisdictions. Industry is attending to its costs, productivity, product design, quality, safety, environmental protection, skills development, training and customer service performance, but governments must attend to those of its activities and costs which do not add to the ability of industry to meet global competition.

We are pleased to acknowledge the Treasurer's statement in the Legislature on December 4 in which he committed to proceed to implement the R and D superallowance and the Ontario current cost adjustment and its enrichment to a 30% rate. We recommend that the R and D superallowance be also set at an enriched level to emphasize the need for R and D projects in Ontario.

Among the Ontario taxation measures which we believe are contrary to this precept of lowering costs are, first, the grouping of the gas-guzzler, the tire and the gasoline taxes. MVMA member companies have doubled the fuel efficiency of their products since the mid-1970s. Progress continues across a broad front of technologies to continue to improve motor vehicle capability. Tax penalties on vehicles will not hasten that process and will likely work against it. If the objective is to conserve fuel, we maintain that drivers must be persuaded to take advantage of the vehicles' fuel efficiency by operating them more energy-conservatively. If the tax system is to be used to convey that message, much more use of incentives is advocated, not the bludgeon of punitive tax rates.

If we are correct in stating that the market is already aware of the need and the objective of conserving fuel or reducing fuel consumption, we contend that no purpose is served by increasing the cost of vehicles via ad hoc taxation measures.

With regard to the employer health tax, increases in the cost of producing goods in Ontario through this type of tax measure also constrain the drive to be globally competitive. Because companies have no control over the effect of these types of levy, we urge that they be avoided by governments. Until the EHT is evaluated as to its economic competitiveness effects, the MVMA will continue to recommend that it be limited by applying it only up to a maximum salary or wage remuneration of \$30,000 per employee per year. This would go a long way to remove the distorting influence of the employer



health tax on the design and development of company employee benefit programs. We would also urge the government to hold the EHT at its initial rate.

On the corporate tax rate, we note that Quebec has employed a lower rate of corporation income tax to attract industry and to promote the expansion and productivity improvements of businesses already there. The MVMA recommends that course for Ontario as well to redress some of its lost competitiveness as a business environment. The MVMA also urges that consideration be given to reintroducing an inventory allowance to offset inflationary effects, removal of the half-year rule in claiming capital cost allowance, and the elimination of the unrealistic effects of the 120-day rule for investments to be eligible for reducing the base for Ontario capital tax.

There are probably many other things we might have included in a budget submission which we intend to put forward to the Treasurer, but we thought we would limit ourselves today to those items, and hope to respond to any questions that you have.

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**Mr Stockwell:** I am curious; did you have an opportunity to read *An Agenda for People*?

**Mr Clark:** Yes.

**Mr Stockwell:** It appears that your recommendations are running very contrary to some of the recommendations and concepts that are being put forward by this government, particularly when it comes to the corporate tax rates, talking flat tax, talking a few programs that appear to be instituted. Tell me how this will affect your particular industry, and do you see it as another blow to your competitiveness?

**Mr Clark:** I think I would like Jack to talk to this too because he is more familiar with the taxation than I am personally, but we have not given it a great deal of investigation at all. We are more, I guess, incrementalists than looking for an analysis right away of a brand new concept and we have been wrestling so hard with trying to administer or getting ready to administer the new goods and services tax and so on that we have not really gotten into any evaluation of something like a flat tax or a minimum corporate tax or any of those projects. I think we generally feel that there should be, and there is, a reasonable mix of taxes. We think some should be on income, we think some should be on consumption, then it becomes a case of dealing with those basic forms. We have not been very innovative in our thinking. Jack, do you have anything?

**Mr Holman:** The impact of taxation hitting the province or an industry adversely comes when you are in a site search for a new facility and that becomes very competitive against facing states around Mexico or Europe. So that is where we have to be very careful in having a tough sell at times. At the present time, there are no new major facilities on line. There may be expanding present facilities and if you have a facility, bricks and mortar in place, you already have a leg up over a greenfield site; but where there is a greenfield site up for grabs, then if your tax regime is not competitive, you would have a tough sell, from a Canadian financial analyst's position in the industry, in sell-

ing your counterparts that this should be the location for facility.

**Mr Stockwell:** I guess then you are the specialist and the next question goes, I suppose, to the specialist. What about now? How are we shaping up, Ontario, in competitiveness with respect to taxation? I suppose debt enters into it, not really a lot but more from a tax point of view. Are we competitive? Are we going to attract growth, industry or expansion compared, let's say, with (a) the world and (b) even just our closest neighbours?

**Mr Holman:** Our competitive position has declined. We have not had a greenfield site to study, and when a new greenfield site comes up, that is when you get into your in-depth study. But I know our competitive position has declined, say, from the time we went out and won the Essex Manufacturing facilities which created about 2,500 jobs in Windsor and also attracted a few other businesses.

**Mr Clark:** Mr Stockwell, if I might, there are a couple of studies that might yield some information I could leave with the researchers. One is the study that Kwinter's group commissioned for the parts manufacturers, and maybe they have already given a copy out, but it was done earlier this year. It indicates some of the losses in competitive investment Ontario is facing. But it really comes down more to: an old plant in Canada has problems, an old plant in the US has problems. The costs of those plants, because they are old, because the workforce is older and the costs are higher for such an older workforce, it means that you can compare better an old plant with an old plant.

I think we suffer a little bit in relation to those two. The big problem comes when you are dealing with an old plant in the US versus a new plant in the US. The costs are totally different, and the same up here. So it gets very difficult to try to sort out exactly where you stand, especially if you only look at the taxation side. Everything folded in, the workforce, the training, the skills development, the education system, the health care system, all those things. This will help a little.

Then Michigan did its own study in July 1990, called *Review of Michigan and Ontario Taxes*; they took a real forma capital project and tried to sort out what the major taxes were at least in each jurisdiction for that same project and it came out mixed. The first couple of years one jurisdiction had an advantage, the middle years somebody else and then it reverted and indeed, the 10th year it is back to the other one. So again, it is very difficult. It is almost qualitative rather than a quantitative arrangement, but we will be glad to leave those with the staff.

**Mr Stockwell:** Good. Being in the car business, it always astounds me, when eventually you go and finish selling a car, the number of taxes you add on, from the conditioning, gas-guzzler tax, your tire tax and so on and so forth. By the time you end up actually writing the deal up, you see the customer's eyes pop. One last quick question is, has there ever been a study done with respect to after-sale taxes, or some are pre-sale taxes, that are built into with respect to selling a vehicle, say, in Ontario as opposed to New York or Manitoba, etc?



**Mr Clark:** I cannot recall anything offhand on that is.

**Mr Holman:** I cannot recall a study like that, no.

**Mr Clark:** Because of the federal sales tax having n so high—

**Mr Stockwell:** I know, the 13%.

**Mr Clark:** Yes, 13.5%, we figured that under the old manufacturers' sales tax, with its possible application at various levels of transaction in getting to a completed vehicle, even though the nominal rate was 13.5% on the sale from the manufacturer to the dealer, it is probably closer to 10% because of the taxes that are buried in it. That will go away over time now, thank goodness, although there are still some buried in older plant properties where you did not pay manufacturers' sales tax and it is still buried in the plant.

**Mr Stockwell:** Of course it was all compounded too, when you added on these other taxes.

**Mr Clark:** That is right.

**Mr Phillips:** I have a couple of observations and then a question. The employer health tax you have some problem with, but to me it is potentially one of the big competitive edges you have versus US plants, in the sense that you are paying maybe \$1,000 a year per employee for health care and my perception is it may be \$3,000 in the US. My first question would be, what is the competitive edge on that? Second, I know all the business community comes and wants us to reduce debt and deficits as long as it is not expected. For example, the current government, by eliminating the sales tax on top of the GST, is going to forgo \$1,000-million worth of revenue and it is probably \$250-million of revenue it would have gotten by taxes on top of the old manufacturers' tax. I would think the auto industry benefits a fair bit by that and I just make that observation to you.

But my big question is one that Mr Stockwell asked a while back and that is the one that is on all of our minds: just how competitive the Ontario industry is versus elsewhere. I have a kind of hope that an industry as sophisticated as yours, that must on a daily basis be comparing versus your US counterparts—what help you might provide us in terms of how we stack up, everything in. I am talking about labour costs and management costs and all those sorts of things. You may not have it with you today, but is there anything at—

**Mr Clark:** Yes, there is something coming up, Mr Phillips, that we hope will give us some of that data in our sector. This parts study did that kind of thing, trying to figure out what the cost difference drivers were between Canadian and US—

**Mr Phillips:** My impression of that is that that was an anecdotal thing as opposed to an analytical thing.

**Mr Clark:** It was a survey, there is no question about that, but there were some hard data in it as well. We hope that at the analysis the same consultant is carrying out for matched plants on each side of the border in three different member companies of ours will yield some of that information. I have not seen the data yet. It is still being sorted

out. But that will come out within a few weeks, I would think.

**Mr Phillips:** That is a public document?

**Mr Clark:** It will be. But generally, I guess the best way to say it is, go back to the auto pact in 1965. That integrated the North American industry. It made possible all the objectives, one of which was to make sure the market forces worked. Another one was to make sure that you get the economies of scale. That was skewed purposely at the time in order to get assembly jobs, because what we wanted was jobs. We have gotten them. We have also, by the way, gotten tremendously modern, large branch plants of multinational corporations. That has stood us in good stead over the whole operation of the auto pact since 1965.

We think each company could come up with data which show that their plants in Canada are still at the very top of the ladder in terms of productivity, quality, whatever. One of the ways they do it, I understand—and Jack, correct me if I am wrong—is to relate warranty costs, for example, back to the plant that finally assembled the vehicle. So there is a great deal of information that goes into monthly reports which are put out plant by plant. That is the way each company individually designs its method of tracking where each plant in the system is in those things it wants to know about.

**Mr Holman:** Track it back to the parts supplier.

**Mr Phillips:** What would be an equivalent number to health premiums for a US plant?

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**Mr Holman:** I think it would vary, because some of them are self-insured. Some of them have very good records in terms of workers' compensation and some of them have very poor ones. The poor one is going to get charged an awful amount more in terms of insurance. I do not have it. I do not know whether the US would have it. I think we will get it out of this study with the assembly plants involved, which will be at least a better indication than we have had up to date. Agreed: There is no question that on the surface at least, Canada's universal health care system is an advantage for Canada. It is slipping away. It is costing us more. It is raising the deficit. It is causing interest rates to be higher. Where do you go with all of this stuff?

Finally you come back down to, well, where does Ontario sit? We are sitting in a moving vehicle. It is going backwards. It has been going that way for a long, long time now. It is not going at a horrendous rate just yet. We still have advantages over the US. We do not have advantages over the Japanese and we do not have advantages over the Mexicans in terms of flat-out nominal costs. But we do have some qualitative advantages. Those are difficult to sell when there is a new project coming down the pipe, the decision for where it is going resting with someone else.

**Mr Phillips:** I for one would be interested in that study because I hear a lot of comments like you have given. When I say, "What are the facts?" it is tough to come up with.



**Mr Clark:** We will certainly table a copy of that study as soon as we can get our hands on it with the committee.

**Mrs Sullivan:** I have some figures relating to the competitive aspect of the tax and other input structure. One of the things that strikes me in fact is that although perhaps not in the particular sector, but across, generally, in manufacturing, Ontario is in a position, at most current studies—we are in late 1990—that shows us to be singularly competitive in terms of all of those government costs, whether they are corporate income tax—certainly highly comparable for manufacturers, employer health tax and UIC, WCB and so on. They are in fact quite comparable. On the employer health tax figures, the US chamber of commerce has estimated that their costs are 8% of their gross payroll, whereas of course for large manufacturers in Ontario they are under 2% and significantly lower here than even in Quebec, which is next door.

I think that it would be useful, as we are looking at competitive issues—we are looking at other things as well as the costs that are placed by government, whether through inputs or through corporate taxes, including the speed at which innovation is introduced into industries and so on. One of the things that kind of struck me about your presentation related to the suggestion that the research and development superallowance be set at an enriched level. I wonder if you could expand on that and say what rate you would like to see that will be beneficial for the industry.

**Mr Clark:** I am not sure what rate we would set on it, but as high as possible. I think the main intention there, certainly on my part, was to try to suggest that, although in all of the comparisons that have been done that I have seen, anyway, of research and development expenditure nationally or by industry or whatever and the tax rates that apply to those expenditures, Canada looks not only to be in great shape; we are competitive in terms of rates of taxation on R and D expenditures.

None of the studies that I have seen takes into account the programs of assistance outside the tax system which many, many countries have in place. They are extremely generous. They want R and D, they get R and D. But, by George, they buy it. We do not do that in Canada. Again, go back to the inception of the auto industry in Canada, which was over a high tariff wall. A couple of companies came in and brought parts in from the US and assembled them here. The cost of the vehicles was extravagantly high until the auto pact in 1964. Then we wind up with a skewing of policy towards getting jobs in assembly operations and indeed lowering costs both at the factory and for the retail customer. All of those things were done.

Now we are into: "Wouldn't it be nice to have R and D?" Yes, it would, I guess. But we have the advantages of R and D. We have the jobs coming from applied R and D. Do you go on a sector-by-sector basis and say, "Whatever R and D is, would a facility really help in whatever terms you want it to help that particular sector?" or do you go to a generic program, which is probably what would have to be done at the federal level and say, "Okay, we want just more R and D?"

We have worked this incrementalism thing I have talked about before. We have been successful to a fair large degree, working with other groups, to make sure that the definition of scientific R and D in the Income Tax Act upon which our data as to what amounts are expended on R and D in Canada is based, is generous enough to allow inside those items of expenditure which we figure are R and D. There is a great deal still left outside. We are working on that.

But to attract a chunk of automotive R and D to this country is going to be very difficult if it is going on some place else already. There is a lot of testing work that is done here: cold weather, alternative fuels. The mix of alternative fuels in Canada rather than in the United States probably offers an opportunity for us. So far the companies have done a lot of work in those areas, but it has been test programs, which probably do not fall within the income tax definition.

I would say that if we are really serious, there is going to have to be, to put it bluntly, a purchasing of a R and D capability for Canada.

**Mrs Sullivan:** Does MVMV support the corn producers' request for higher oxygen content—

**Mr Clark:** Oxygenated fuels? Again, the public is going to be the final arbiter in this thing, and we, along with the corn growers and the other groups, the Canadian Oxygenated Fuels Association, hope we can get enough information to them to have them make a decent decision. Right now, the costs are not in line, the range of the vehicle on those types of fuels is not in line, the storage of the fuel is much too bulky. Whether we can get it down, we do not know. The possibility exists for all kinds of things, but none of them is as convenient as the system we know right now, which is gasoline-based. If an edict comes, that is one thing. We do not think it is necessary. There is so much work being done by each of the companies to ensure that they know precisely what they have to do in order to go into some other fuel than gasoline or diesel fuel that that is not the problem. The problem is still economics and customer demand.

**Mr Kwinter:** Just a bit of information. Lee Iacocca has been quoted as saying that the cost of fringe—I cannot remember the exact number—is \$200-plus in Ontario and \$700 in Michigan per car. That is offset by a lot of other things, but that is what is happening.

Jack, I would like to ask you a couple of questions based on your comments about a greenfield operation. Ken Harrigan had told me relatively recently, certainly within the last year, that Ontario enjoyed about a \$10-per-hour advantage in labour cost over its counterpart in the State of Missouri. Second, and I do not know what happened because I have been removed from it a little, but when the negotiations were going on about the van plant that was going to go into either St Louis or into Oakville, obviously, from the information I got from Ford, we were able to be competitive. Has that deteriorated?

**Mr Holman:** It has deteriorated somewhat. Again, that study was done at that time, and to say we would have to revisit a study complete—when we look at a study, there



about dollars, the cost of the fringes, transportation for the market you are serving, interest rates, the operating the plant. It goes right down to the bottom. The comments say we have deteriorated significantly. I did not answer that question properly.

**Mr Clark:** One of the things that is very difficult for as well as for you, I am sure, from Mr Stockwell's comments and Mr Phillips's and everybody else, is trying to deal with the thing in a very studied and objective way, because you cannot get the data. We hope this study that I mentioned earlier will give us a little better handle on it, but it is incrementalism again. If you look at one aspect of it that turns out to be a disadvantage for Ontario, then you are unable to get somebody who has made his mind up on a discrete item, and it has nothing to do with the overall. This is the dilemma. I will give you two examples.

Federally, my understanding is that there is an internationally accepted, tested and reciprocally recognized list of chemicals used in industrial facilities. Canada has not, federally, not to recognize some of that testing that has gone on. I do not know what their reasons are. The problem is that if you have now the need for that chemical in Canada in your operations and it is not going to be approved automatically because it has been tested somewhere else, then to test it in Canada vis-à-vis the United States, I am told, costs 20 or 25 times as much.

It is the same thing with building permits. The tape you have to cut in order to get through to get the approval to do a sewage treatment plant, the electrical facilities, the transformers, the roads, the whole thing on an expansion to Ontario, are 20, 25 times as high as they are in the United States. All you need is one of those and we are in big trouble when somebody in the United States is making a decision on the placement of a facility.

**Labour situations:** One of our member companies tells me and it was a fascinating story and I wish I could take the time to repeat it, but in essence it was that during last year's negotiations the facilities were going to be over-leased and you either brought in new product to put in that facility or you lost that facility. In order for there to be a possibility of bringing that product in—and it is now, by the way—there had to be changes within the collective agreement to allow for changes in classification and seniority rights and a whole bunch of other things in order to make it fly. I do not know what the detail was. That was the problem. The union saw it had to go through with that agreement, and the agreement was struck on the basis with the knowledge of the people in Employment and Immigration Canada that it would come forward and assist with financing, etc., etc., in order to take this new product on. We have nearly lost it. Had we lost it, I think there were several thousand jobs in an already depressed area that were going to go. But we have retained them. We have not abandoned them, we just retained them, but the fight you had to go through in order to get there was monumental, multifaceted and, thank God, successful. But all you need is that one implication that, "Hey, there's a negative here that we don't have some place else," and it could be that we have lost a project.

**Mr Hansen:** The latest figure I heard was that the difference between the auto worker in Canada and the United States was approximately \$6 to \$8. I do not know whether I am too far off. I hear \$10 mentioned.

**Mr Clark:** I think that is way too high right now, the \$10—

**Mr Hansen:** We get into the Canadian dollar as it is right now; things have changed. I came from auto.

I see the point of the employer health tax. You put a figure of \$30,000. I know this became a problem, that in the auto industry, when things are good, there is a lot of overtime involved. I can see your point. This is the place to bring it up and air these particular things.

The other thing—talking to some of the representatives from General Motors in one of the last meetings I had with them—was on the auto insurance. They did not have any figures, but if we do come in with the public auto insurance, which is supposed to be coming up this spring, this will reduce the operating costs. They feel that insurance costs were going up for the auto industry, because if a person was in an accident the auto manufacturing would pick it up rather than the private insurance.

These were some points I just wanted to clarify with you, that we are looking at some of these areas to reduce costs and I hope we can do something for you.

**Mr Clark:** We appreciate it very much. The situation, again, is that from an assembly point of view I do not think there is a big problem about where you assemble a vehicle. It is extremely critical to the country about where the devil you get the parts. That has always been the case. In our sector, there are 30,000 people involved in parts production as well as the 50,000 in assembly, but it is critical as to where you get your value added, which in our case is largely from the parts area. It is that parts area, too, which is extremely vulnerable. I do not want to speak for them; I know they have either been before you or will be coming but, believe me, they are the meat in the sandwich right now.

**The Chair:** There is an issue I do not need comment on. In my riding and others I am starting to experience that some people are moving their parts manufacturing because we are bringing in environmental controls and there are jurisdictions in the United States that are not, and this is going to become a problem. Do we continue to pollute our environment or lose the jobs to somebody who will continue? This is a very interesting question.

**Mr Clark:** Wait until Mexico comes along.

**The Chair:** My understanding is that the Rio Grande is just like a big open sewer.

**Mr Clark:** It is—and Europe. I was in Germany in the Ruhr Valley last September and, I tell you, you cannot breathe. It is unbelievable. Everything they do there is for the benefit of maintaining industry. That is great up to a point, but we think there is no particular conflict between controlling our plant sources of pollution as well as the vehicle sources and the economic viability or the value of our industry to the country. There is no problem in meeting those two goals.

**The Chair:** My understanding is that California is going to have some very stringent controls by the year 2007 and that these are going to have to be met if you are going to sell a car in California.

**Mr Clark:** That is right. They have a unique problem. It is really starting to get better. I understand that the days of notice where you should not go outside and so on and so forth for those who are susceptible are way down from where they were. The whole global warming, CO<sub>2</sub>, ozone, fossil-fuel-related situation is being given such a tremendous amount of attention right now that I venture to say that it will be overcome, and it will be that we will be into alternate fuels not too far down the pike, that people will find them quite acceptable as alternatives to what they are

using now. We are going to have to market like we have never marketed before. The standards are going to have to be reasonable and over a time frame that allows us to make the adjustments.

So far, so good. But the important thing in my mind is that we can do it because government, industry and the public are all for it at the same time. So you do not need regulation. All you need is a consensus as to where we want to go and how quickly we can get there and we have made it.

**The Chair:** On behalf of the committee, I would like to thank you for coming.

The committee adjourned at 1646.



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Greffier : Todd Decker**

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 24 January 1991

The committee met at 1004 in room 228.

### PRE-BUDGET CONSULTATION

**The Chair:** I see a quorum. I would like to begin the committee hearings. I would like to welcome the Honourable Evelyn Gigantes, Minister of Health. I would like to you begin.

### MINISTRY OF HEALTH

**Hon Mrs Gigantes:** It is a pleasure to be here. I would like to introduce to committee members who have met him, the deputy minister, Martin Barkin.

This is a new format for discussion of pre-budget matters, as I understand it. It is certainly a new format for me. I hope the committee will excuse signs of incompetence, irrelevance and so on. I intend to try to make a very brief introductory outline that will indicate to you the approach that our government is taking to questions affecting the health of Ontarians and then ask Dr Barkin to lay out one of the more explicit kinds of considerations that provide the policy framework for your consideration. Then we are prepared, of course, to answer whatever questions you may have explicitly around matters of the financing of our programs.

I would like to begin by indicating that the approach that I, as Minister of Health, have taken since being sworn into this position in October has been one to try to think of how we can best improve the health of Ontarians.

As you well understand, the development of policy and practice programs within the Ministry of Health has been largely associated with the public health insurance that we have been providing hospital insurance and physicians' services insurance, so the development of policy, apart from providing public health insurance for those two items, has been slow.

Nevertheless, over the last few years there has been a lot of work done and I would like to acknowledge before the committee the work done by both Conservative and Liberal governments before the formation of this government in attempting to develop a broad policy framework for the betterment of the health of the Ontario population. It's a slow process, but much progress has been made and I will speak to some of those items as we go this morning. I am sure you will want to ask questions about how that relates to our financial planning.

In very general terms, what we know that has come out of the work that has gone on in the discussion of public health policy and the health of Ontarians has been an acknowledgement that the delivery of health services is only one part of what has a large influence on the overall health of the Ontario population.

We have come to recognize, through the planning of health policy, that in fact social and economic factors are intimately, closely and irrevocably linked to the overall

health of this population, as with other populations historically and geographically in our universe. We have not traditionally paid very much attention to that fact in the way we have worked towards trying to better the health of the Ontario population, or the Canadian population, though in fact it was Canadian sources which first began to identify that very important element in health planning.

What that means, of course, is a great many things. It means that somebody who is responsible for working towards the betterment of the health of Ontarians has to pay very close attention to the social and economic policies that are developed within the government serving that population. We have also learned that the environment—the work environment, the life environment, the environment, for example, in terms of the safety of highways—is a very important influence on the health of a population. We have learned that people's life habits have a very profound influence on their health and, consequently, the overall health of the population. Fourth, if we are to identify the major factors influencing the health of the population, we of course look to the delivery of health services.

You will want to talk to us about all those elements. I suspect you will want to spend most of your time on the fourth, but I wish, just in the beginning, to indicate to the committee that in terms of this government's approach to health planning for the Ontario population, we are trying to make those policy decisions and develop those programs which will include the important contribution of all four elements to the overall health of the population.

On top of that, I can say that this ministry which I am representing before you today on behalf of the government is one which is currently spending a very significant portion of the revenues available for government in Ontario. That is also true in other provinces. As Dr Barkin will mention, in comparative terms, Ontario is perhaps focusing overly on the delivery of health services when we think of the other elements which I have just enumerated which contribute so significantly to the overall health of the population.

With that brief outline, I would like to pass over to Dr Barkin to speak a little more precisely about the matters which you will probably want to discuss in more detail.

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**Dr Barkin:** To the recollection of me and my staff, although this committee has been in operation for about three or so years, this is the first time the Ministry of Health has actually been before the committee.

In order to provide the committee with the maximum opportunity to ask questions and engage in dialogue, I pre-circulated remarks that I had prepared. I have no intention of delivering all of the remarks, but only to highlight them and not consume too much of the time of the committee, and perhaps focus on a few areas. I hope they are areas



that are of interest to the committee, but if they are not, the committee can focus its attention on the areas of interest to it. I have with me some staff; if I cannot answer the question, I hope they will be able to provide you with the answers. If neither of us can at this moment, we will be sure to get the answer to you in a timely way.

The minister introduced a commentary about the determinants of health in our society, of which the health care system is the fourth determinant but one which for Canadians traditionally has been of very high value.

It is no great secret to anyone that as we have the two conflicting problems before us, our need and desire to maintain full accessibility to every appropriate health care service that we can to all of our citizens, the other side of that coin is to do so within an affordable and manageable framework, because we cannot sustain the health of our society without having those two in balance.

One of the difficulties traditionally that ministries of health have had in this country is that they have had as their roots an insurance background. We really never have been managers of a health system. We have been insurers and funders of health services generally left to others to organize and manage and deliver. So as we finally have had the fiscal pressures come into balance with the service pressures, we have now had to look at and reconfigure that paradigm and see to what degree it needs to be restructured, while we remain true to the principles of universality, accessibility and comprehensiveness of health care services.

Virtually every jurisdiction in Canada has put together some form of advisory body to the province, whether it is called a Premier's council or a royal commission or a named commission. Everyone is looking almost everywhere in the world to see where the appropriate organizational solutions to managing that balance between full health care services available to everyone within an affordable framework can be found.

Rather than go through everything that is the commentary that I have, therefore I am going to just concentrate on three areas.

One of the areas that comes up as a possible solution—and rather than project the slides up, perhaps I can circulate these to the members and two or three people in the gallery—is the notion of a free market system in health. We hear this quite frequently, “All things can be corrected by allowing market forces to prevail.”

In order to see how the free market system works in health care, we ought to look south of the border, since it is the home of the free market system in health care and probably the last jurisdiction in the world to rely on that. What we see is both the highest gross national product devoted to health as well as the highest per capita spending in the world of any country; 40% higher per person in fact than Canada, according to the Organization for Economic Co-operation and Development. One of the most remarkable comments I would make is that health care in the United States, in and of itself, is the fifth-largest economy in the world, larger than the economies of all of the other countries of the world but five.

Yet in the face of that kind of expenditure, it has at least 30 million uncovered citizens, 37 million partly

covered. Its health indicators, overall, are falling. Its natal mortality, birth weight, maternal mortality, life expectancy from a variety of diseases is now falling, rising, as it is in almost every other western country now rates in the World Health Organization lexicon 19th in overall quality of life, and notwithstanding its expenditure, its own polls show that its consumers, providers together are the least content of those in any country where it has been polled.

I should point out that the United States has more fees for the vast gamut of its health services than any country as well, and that its health care costs are affecting its competitiveness, its ability to generate wealth as its major manufacturers attest, and has become so heavily regulated and intrusive that one observer told me that health care financing administration in the United States passes a new regulation every seven hours.

It is a remarkable change in the way health care has been delivered in that country since 1983, and in the recently passed Congressional Omnibus Budget and Reconciliation, 1990, an act which had frozen physician fees since 1983 under medicare, they were now recommending 10% rollbacks and they now were producing even further draconian measures in the management of health care expenditures there.

The one final thing I would say in terms of efficiency of the free market system as opposed to the government system is that in testimony before Congress it has been estimated that if the United States had the government insurance-type system that is now present in Canada the United States would be saving \$50 billion a year, that is non-health-care dollars, in the paperwork involved to maintain its system. So if anyone still wants to recommend a free market system or portions of the free market system as a solution, they would have to deal with those obvious failures when that works.

If we switch over and have a look at the Canadian health system in the constellation of world events, we are exactly doing better than the rest of the world, although when we compare ourselves to the United States we are quite a bit better. We have in this country the highest per capita expenditure of any country with a national health system. We are now devoting \$1 in \$12 of the national economy to health care.

Notwithstanding that fact, that it is costly, it is also a great value. We captured a lot of the values of the Canadian health care system in the Canada Health Act, but an external observer, an editor of the New England Journal of Medicine, looking from the outside into Canada, said that he had found another value that Canadians feel but do not articulate and that is the concept of equality before the health care system. He equated that to the American concept of equality before the justice system. The view is that no one ought to be able to buy himself a better brand of justice simply because he has more money. We have transformed that kind of value into the health care system whereas they have not.

I do not pretend for one moment, and neither do the Americans, that the Americans have achieved their absolute ideal when it comes to justice, any more than we have.



evolved our absolute ideal when it comes to health, but it remains an ideal and a goal and we work towards it. We get closer to it all the time.

Within that value, our growth is exceeding inflation by more than two times, and it is encroaching on all kinds of other priorities that promote the health and wellbeing of Canadians—affordable housing, welfare, education and research.

Up to now we have, however, maintained a reasonable balance between other priorities that promote health and health care. We have been doing something right, because Canada remains and Ontario as part of Canada remains in the top five of nations in the world in our health indicators, we remain in the top five in the world as a nation in overall wellbeing.

Where do we see our biggest problems in health care? We certainly see problems in access to high-technology services. We certainly see problems in access to certain specialties in certain areas. We certainly see problems in access to beds. But the reasons given do not seem to stand up. We have trouble in access to beds, notwithstanding the fact that we have one third as many beds per capita open, bed and in service at this time, one third more than, say, the state of Minnesota, or Baden-Württemberg, Germany, depending on where you want to look. Our patients tend to stay in those beds one third longer than they do in almost any other jurisdiction even though we have a publicly funded home care system, which has a long way to go in itself, but is certainly better than what is available in jurisdictions that use their beds less.

We are told that the reason our health care system is going up in cost is because of our demography. That cannot be entirely true either. We have one of the youngest populations in the world. Countries with one third or half again many over-65s and over-75s as we have are not having much difficulty as we are and seem to be facing that kind of demography. In fact, the thing we have to worry about today is that when we reach their age mix—and we will in the next 15 years—if we continue to use the kinds of services and apply those the way we do now, we will need their expenditure by much more than the 25% or 30% that we do now.

We are told that the problem is the high cost of new technology, but I would have to tell you, as Deputy Minister of Health, I have not had any proposal for new technology put before me that did not also have with it a caveat that said if I put this new technology in place or if the Ministry approves it, we definitely will save a lot of money in the health care system. You would think that the more technology we put in, sooner or later the Ministry of Health would be a revenue producer for the government, rather than a consumer. I apologize for the facetiousness of my comment.

We are told that one of the reasons it does not work is that it is run by the government. The governments are running health care systems all over the world. In fact, one of our problems may be that our system is not run by the government; it is an insurance-based system as opposed to those systems in Europe and in England, where the

government takes a much greater hands-on position on that—not intrinsically a Canadian value.

The real reason that we understand was the problem lies in our roots as an insurance agency rather than a health system manager. We are in fact, and have been until recently, an unmanaged system. Dr David Naylor, in appearing before the House of Commons committee on health and welfare, made that very clear in his testimony. The degree to which we have begun to start managing represents a very slow start and we have a great deal more to do in this area, but I could offer you a few examples and then a concluding comment and we could go to some direct questions and answers.

In the prepared comments that I was going to talk to, I could say that we really started a lot of our activities in the early 1980s, but in 1989 began to look at things in earnest. Some of the things that have happened since then were the passage of the Independent Health Facilities Act, 1989, which for the first time is a health services act that requires quality assurance and outcome review as a condition for continued licensure. We mandated utilization review in public hospitals and provided guidelines for those hospitals. In co-operation with the Premier's Council on Health Strategy, the Ontario health survey was launched in order to give us an indication of the health status of our population and to try to trigger expenditure to that as opposed to certain other factors.

We began the health insurance reregistration process in order to provide us with real information about what was going on. I am pleased to say that last Wednesday, we had for the first time a presentation from the Centre for Health Economics and Policy Analysis at McMaster demonstrating that even with the information that we can generate today, we can now begin to look at regional planning and reasonable allocation of available resources according to population needs, demography, gender mix and prevalence of disease, a facility we have never had up to now and one that is quite important.

Perhaps the single most important change, however, that has occurred in the last two years is a shift, I think, in the awareness of most of the major providers that working with the system to produce this evolution will be an important way to make it work. I am delighted at the responses we have certainly read, at least in the media and in some of my private conversations with, for example, the Ontario Medical Association and the Ontario Hospital Association, indicating that they now understand that to continue to have an affordable and manageable health system that is providing access to all of our citizens to the service that they need, we will have to work together within this framework of managing a health system as opposed simply to insuring it.

That concludes my opening comments, Mr Chair and members of the committee. There are some additional details in the handout. I would be pleased to assist the minister in answering any questions you might have.

**Mr Phillips:** I wanted to get on early because I missed a couple yesterday. Deputy or the minister, we are kind of looking ahead at the next fiscal year. Many of the things you talked about are kind of a longer-term direction. I just



wondered if you could give us some help in terms of what we should be thinking about in terms of the health budget for next year, bearing in mind that I think two parts of the budget, if I am not mistaken, hospitals and doctors, represent close to 80% of the budget.

In the hospital sector, I know the nurses' contract expires at the end of March, on the first of our fiscal year. I believe the Premier has made some fairly significant commitments to the nurses. I think there are negotiated settlements with the rest of the staff in the 8% range. Again, if you look at the hospital budget, I think, in theory anyway, we are looking at some very substantial increases in what is the bulk of the hospital—probably 75% of hospital expenditures are staff wages.

The second one is, I think around 32% or 33% of the budget is fees for physicians. The last fee increase was, I think, 1988. I believe that there was a commitment to binding arbitration for the doctors. I guess their biggest area is the drug benefit plan. I think that is another \$700 million of the budget, with the report. I wonder if you could give us some help in terms of what we as a legislative committee should be thinking in terms of increases in budgets for the health ministry.

The other thing is community-based care, which is something I think we all are very much supportive of. I think that most people believe you have got to invest in that. You cannot just say we are going to have it and not have the resources there. How much should we be looking at next year in terms of community-based resources within the Ministry of Health budget? If I remember correctly, people say that psychiatric patients were deinstitutionalized in the 1970s without necessarily the community's support.

So those are my three questions, really. The bulk of the health budget is hospitals and doctors' fees. For both of those, it seems to me, there are some significant commitments made to the wages or the fees in those areas. What should we be planning on? For community-based care, what kind of investment should we begin making next fiscal year so that we have that community facility in place?

**Hon Mrs Gigantes:** Mr Chair, those are the questions. I would love to know the answers. At this stage, as you will understand, we are in the process of looking at our accounts, trying to figure out what negotiations with the doctors, with nurses, are going to mean and also, trying to figure out what kinds of moneys will be available for expanding community-based care.

As the deputy minister described it, the situation we face is one where much of the demand financially is for programs which have been open-ended, provided through hospitals by physicians and in which we provide the insurance payments. That being the case and that making up the bulk or a very large portion of the expenditure of the ministry, one tends to think of what is left over for building up the kind of community-based services we would like to see, many of them pseudo-medical, not necessarily delivered by doctors and certainly delivered in ways that we would tend to think of as non-traditional, new ways, and supporting the kinds of goals for policy planning that are

associated with the determinants of good health that I spoke of earlier.

**1030**

That being the case, we know that we are going to have difficulty this coming year trying to shift the emphasis within the overall budget of the Ministry of Health to the traditional delivery system, which I will stress has in many cases not been good quality. I think that most people, for example, in Ontario would agree that we can provide better services to people who have chronic health problems than we do in the current delivery system, which does not provide a full range of services, does not provide services very frequently where people want them, which is at home or in residential settings rather than in highly institutional settings.

Turning the system to a new direction is a slow process, and it is a process in which one has to fuel the existing system financially so that it operates adequately to meet people's needs as best it can, while at the same time trying to develop new ways of meeting those needs. That is a difficult problem.

You have identified the exact nature of the problem, and we will simply do the best we can, given the need for money in the existing system and the new contracts which will be worked out with nurses, with doctors, and look for resources to help build those kinds of services and those kinds of service providers in the system so as to better meet the needs of the Ontario population. That does not really answer your question, but I do not think there is an easy answer to your question.

**Mr Stockwell:** That is the hard one.

**Hon Mrs Gigantes:** That is the hard one.

**Mr Phillips:** I am just saying this is 34% of the total budget. We are presumably trying to help the province to operate well and the recommendations, if they have some value, will be your best estimate of what is going to be required to achieve your objectives. I realize the Treasurer then has the responsibility of saying whether that is desirable or not.

**Hon Mrs Gigantes:** Yes.

**Mr Phillips:** I would like some help because I think you now know probably what, in ballpark, the hospitals may require and what the nurses may require. Those are the two large components of the budget. Can you just give us some indication of that?

**Hon Mrs Gigantes:** And the doctors. Maybe I would like to make some comment, Martin. I do not know how specific we can be, because these are, at this stage, things that we do not control, though we can hope to have some influence.

**Dr Barkin:** To the degree that I have any feedback from the Treasurer, I will try to answer as much of the question as I have at my disposal. We started out with a couple of principles. You asked a number of questions. I have sort of written them down. If I happen to have missed one, please remind me.

In that constellation of questions you asked about the difference between the non-institutional-based serv-



the institutional-based services and we have started in our own budgetary planning process with the basic principle that the rate of growth of non-institutional-based services—community services, home care—will always be greater than the rate of growth of the institutional-based services. So that was the first principle with which we approached it inside the ministry and we will still want to stick to that.

The second general principle we started with is that there is a rate at which any complex system can adjust to change and there is a rate, if one exceeds the stimulus to adjustment to change, where that adjustment becomes very difficult and sometimes will be disruptive. If we believe that there needs to be some change in the way services are delivered, then there needs to be, from a funding perspective—because at the moment that is the only lever we have until we are much better at a co-operative management paradigm—then funding cannot possibly respond to everything that everyone wants to maintain the status quo, since the status quo clearly has to change. Our most difficult decision will be to what degree funding, as an incentive, as we heard from the Premier's Council on Health Strategy last year, can be used to shift from institutional to non-institutional options and to deal with the complex pattern of delivery of services in a way that the system is capable of responding to.

That will take a lot of dialogue, but we are certainly aware of the pressures that you described, as you know from the Ontario Hospital Association's news release. They presented their figures to the Treasurer. I was present at that meeting and the Treasurer commented that, based on the way the hospitals were now operating and delivering services, he felt that they had given a fair analysis of it. The question that we did not answer and have not answered as yet is, to what degree and at what rate can hospitals continue the rate at which they are modifying their pattern of service delivery? And they are doing that. Lengths of stay in Ontario in the last couple of years are starting to come down. That is not to say that they are under some degree of pressure. In a lot of areas they are. That is part of a judgement that the government will have to make as we present it with the various dollar configurations that are before us and the kinds of pressures that each dollar configuration will put into the system and the capacity of the system to respond to that pressure and to maintain the appropriate array of accessible services.

**Mr Phillips:** I just want to make sure I understood that we should be looking at a greater percentage increase in dealing with health. That is the kind of indicator or benchmark. The only comment I make is that some of the capital spending is through arbitrated settlements which are in some respect out of their control, as I guess with the arbitration. The physicians' fees now might be somewhat out of the control of the ministry.

**Dr Barkin:** Right. All right. I will not comment; that is fine.

**Mr Phillips:** I have one comment.

**The Chair:** I really must move along. I have six more questioners. Mrs Sullivan is next please.

**Mrs Sullivan:** My questions are a direct follow-up to those asked by Mr Phillips. I want to really have you speak a bit more about that transition phase between heavy emphasis on institutionalization and so on. Moving on to deinstitutionalization and where the incentive funding, the stimulation for change that you talk about, has to change, whether in fact, over a short or interim period of time, you want to see a specific increase in your minister's budget for transition purposes.

I would also like to ask you how you see your ministry in terms of provincial management and the way we see the budget set up now, your ministry's rationalizing that kind of budget stream, say, with Community and Social Services on the long-term care program. Do you see perhaps a reduction in some of the Comsoc budget with a shift into a new mechanism? Where do you see increased emphasis there and do you see, once again, a short-term shot that is necessary or is this something that will happen within the context of a third of the provincial budget being dedicated to the Ministry of Health?

I would also be interested in hearing your views on the additions of co-payments into the health care system. I would also be interested on your views on the impact of a change in funding systems of, for instance, case load funding systems versus fee for service; once again, the impact on your bottom line.

**The Chair:** Well, that should take care of the rest of the morning.

**Hon Mrs Gigantes:** Perhaps I could speak to one element of the questions that the member has asked. I think it is a very important element and I think it links with other questions that you framed together, and that is the question of incentives and how much incentive one provides.

Indeed, within the institutional framework of our budget, we will be looking at devoting a larger portion of the funding to incentives. That is an aim in our budget planning. Martin, you might like to pick up on other things.

1040

**Dr Barkin:** Yes. I hope I managed to capture all the questions and I will try to address them all to allow some further time for questions. The question had to do with the shift primarily from the institutional sector to the non-institutional sector. On the long-term care principles, part of their implementation will be facilitated by the fact that we now have a single assistant deputy minister who stands astride community health and community social services. We are now beginning to integrate the budgets of the two ministries for that particular purpose.

We can separate the stream for public accounts certainly and to remain accountable to the Legislature, but we now look at this as a pool of funds between the two ministries for optimal spending. Perhaps I can help by just reviewing the principles around which we based the long-term care reform because they are quite important.

The first principle is that in order for any long-term care system to function, the access to that care has to be managed. When we talk about managing a system, people have a kind of think that sometimes we are talking about over-managing a system or overregulating a system. In this case



we are talking about management of access to the system so that people who need the service have a single place to go, can be appropriately assessed and then move to the service or constellation of services that they need.

In the long-term care access, that pivotal point was called a service access organization. It is a multidisciplinary based team that receives the patient and has some form of overseeing public governance to ensure that it remains accountable to the local community in which it resides. Once you have accepted a single point of access and the ability to place patients in the services they need, the way the services they need are managed also has to change.

The way it changes is to fund those services not on the basis—I am going to your second question—of a per diem rate or a flat rate, but on the basis of the level of service they provide. So whether the patient is in an extended-care facility or is in a home care program, level-of-care funding then becomes the second major ingredient to make that system work. There are a lot of other pieces around that.

In looking at the management of the system and the number of beds required to deliver that aspect of the system, we have never separated that from the total number of beds in the system because there is a continuum, from acute care to chronic care to extended care to home care, and different people at different times require one of those services. The position we are in now is that as management of access to the latter half of that system has failed to provide a managed access to the degree that we would like, the rest of the system upstream from it, starting with the acute care side, begins to dam up.

We will see anywhere from 15% to 18% in some areas of our acute beds occupied by patients who should start moving into more appropriate services that are downstream. The first response is, "We are short of acute beds, so build those acute beds." At a couple of hundred thousand dollars a bed a year to build and a couple of hundred thousand dollars a year to operate, it is a lot more sensible to build what the patient really needs as opposed to what he does not need that costs three times as much. So the whole cost equation shifts as well.

**Mrs Sullivan:** Just on that, do we have adequate acute care beds now, given a shift? In fact, do we have too many acute care beds now?

**Dr Barkin:** If the shift is achieved, we probably are overbedded on the acute care side, as the United States found itself some four or five years ago. As you may know, about 40% of the beds in the United States are now empty and unoccupied. They have gone from their 95% or 98% occupancy in 1982-83 to a 60% or 63% occupancy, because theirs is a for-profit marketplace. Of course, the difference between them and us is that their hospitals are facing bankruptcy. Many of them are going bankrupt. The level of private-sector hospital corporations going into receivership is rising.

I am not sure I covered all your questions. I did not get a chance to write them down.

**Mr Kwinter:** I would like to make some observations and then I want to present a question. Frank Miller was the

Minister of Health in the 1970s. When I was the Minister of Industry, Trade and Technology he happened to report to me. In a conversation I had with him one time, I asked him, when he decided the health care costs were out of control and advocated closing some hospitals, what the budget was. He said it was \$2.7 billion. At that time I thought it was out of control. He had to back down from closing the hospitals because of public pressure. So that was one factor in the equation. We have gone from \$2.7 billion in the 1970s to \$15 billion now.

In another situation, it is my understanding we have a population of just over nine million. We have over 10 million OHIP accounts, which indicates that somehow or other there is something screwy for that to happen. I understand the new health card is supposed to address that.

We have another situation where we have an open-ended health care demand system. The previous government tried to cap expenditures of hospitals, which we have meant that, let's say in November, if you run out of money and patients come to the emergency, you have to turn them away because you say have not got any more money. That is unacceptable, so there are overruns. Yet the decision was that we have to put these things under control.

Another anomaly is that we have a situation where we have stated yourself that we have the highest per capita expenditure in any of the national health care systems in the world, notwithstanding the fact that we have got the youngest population. Because of that, we should have the lowest expenditure, given the fact that as you age you have more demands on the health care system.

After making all those observations, it is obvious the system is not being managed. I am not saying that in a negative way. I am just saying that there is no control over it because it is not a control system; it is a demand system. If someone presents himself to the hospital, you do not determine whether you have to see him; you have to see him.

My question is that other jurisdictions are looking at putting in some controls, Quebec particularly, where they have announced they are looking at a user fee. Are you contemplating recommending to the government any kind of a user fee or any kind of constraint that will try to bring the system under control?

**Dr Barkin:** I presume that question is addressed to me.

**Hon Mrs Gigantes:** That is to you. I might make a comment after you answer.

**Mr Stockwell:** I might make it before you answer.

**Dr Barkin:** What we will present to the government is all of the evidence around the various management levels that have been tried in a lot of jurisdictions. We have done a lot of case study analysis of the impact of so-called user fees in the system. There are different forms of user fees. It is very hard to come to grips with it because it carries a lot of reactions. Let me deal first with user fee at the primary care level, with the notion that the system is managed by a user fee at the primary care level.

We have about three scientific, if you like, studies that we can go on that are fairly extensive, two in the United



tes, one headed up by the Rand Corp. and the historical dy in the province of Saskatchewan from 1968-72, ere there was at that time a nominal user fee put in ce for primary care.

The impact of putting in a user fee for primary care is posed to cover two functions: One, it is a new source of ney in a system that cannot fund itself from other ways; o, the theoretical advantage of those who support it is t the user fee will deter people from inappropriately ng the system. That is not in fact why Quebec is putting its user fee. The media inappropriately reports it. I have d the Quebec report in its entirety and I now understand at they are after. This is not a user fee.

It turns out that neither is correct. The first thing that is t correct is a user fee as a significant way of raising ds for the system at the level of primary care. We have out 100 million OHIP transactions a year. About 20 mil- n or 25 million of those would have fallen into the egory Saskatchewan applied the user fee to. If you ough of a \$3 fee or a \$5 fee, that would be about enough keep the ministry running for two days. So as a signifi- nt source of funds, it really is not, and one ought not to nk of it in that way.

50

Is it a deterrent of inappropriate care? Quite the re- se. What in fact happens when there is a user fee is that you saw in Saskatchewan, the total number of services ich are consumed in the system do not change one iota. e rate of rise of physician visits in Saskatchewan from 68-72 continued without a hiccup to be exactly the same e rate of rise in every other jurisdiction that did not ve a user fee. What did happen was that the concentra- on of services moved to the middle-aged and middle ss and away from the young, the old and the poor, the ry population group you would want to reach.

In almost every jurisdiction where it has been studied d tried, a user fee is neither a significant way of raising nds for the system or a significant way of ensuring more elligent use of the system. When you really think about what is there in the act of paying \$5 that makes you, the dinary citizen, a smarter self-diagnostician than you ould have been had you not paid the \$5?

However, we move from user fees for primary care to -payments for other services in the health care system, cause we have, as you know, in the Canada Health Act scribed universality and accessibility in terms of essen- l health care services and have clearly defined those and stricted those, but there are other things in our society at contribute to one's health and wellbeing that would t be defined as an essential health care service. That is a sion governments make, as to what degree they will ovide those services and to what degree they will subsi- ze those services and patients will participate in them, d different governments have different views on that.

Finally, does anything help educate consumers? I think at is the gist of your question, and the answer is yes. ducation itself helps educate consumers. Knowledge by elf helps educate consumers. In the Ontario drug benefit an, a significant change was made about four or five ars ago. We said that the dispensing pharmacist needed

to put right on the bottle not only the prescription, but what the cost of the drug was and what the dispensing fee was. Simply giving the consumer knowledge was itself a very significant factor in having patients ask questions and sometimes take some very specific action as a result of the questions they asked.

I cannot resist, Mr Kwinter, however, in dealing with your other comment on the 20 million OHIP registrants. I had that exchange in front of the public accounts committee too, since, as you will recall, the Provincial Auditor pointed that out.

There were two databases in the existing OHIP system at the time the 20 million came up. One was the active database recognizing the insured population; another one was an archival database that recognized any previous number the same individual might have had, or someone who had been deceased or left the province or got a new number. Because people move around, forget their number and get new numbers, we had nine million on the active database list, but so no one could lose his insuring history we kept the archive of any previous number that he might have had. That was the basis of there being 20 million or 25 million. Even in the new reregistered system we will reconcile the person's new number with any previous number or numbers he may have had in the past.

**Mr Kwinter:** If I can just follow up, the purpose of my question really is that I wanted to get an affirmation from the minister or the deputy that you were not contemplating a user fee. I am not advocating a user fee.

**Dr Barkin:** Oh, all right.

**Mr Kwinter:** Given this situation, given the fact that, as I say, other jurisdictions are looking at it, I just wanted to confirm that you were not.

**Hon Mrs Gigantes:** We are not considering a user fee.

**Mr Kwinter:** Okay, that is fine. Now what I want to know is that if you are not going that route, what is your strategy to deal with some of the concerns I have identified? That is shut out to you, and I agree with that, but okay, now what do you do?

**Hon Mrs Gigantes:** The concerns you are raising are concerns of overall management in a relatively complex system. That system is one which government has begun to analyse and try to direct in a way which does not shake up the delivery of service while redirection is being established. I do not think there is one overall answer to the question in specific areas. There are specific kinds of responses.

For example, when your colleague asked the question about whether there would be a greater allocation of money that would be used for incentives to hospitals, the answer is yes. When we get to other questions that relate, for example, to the proportion of services that are going to be provided in community-based service forums, then we are going to see those grow at a faster rate than the rate of growth of institutional services.

When we get to trying to provide a system which will adequately meet the needs of people with chronic health problems, the system known as the long-term care project,



the deputy has described some of the ways in which we will try to influence the redirection of service delivery by purchasing and providing funding for the services that are adequate and appropriate for the individual, as opposed to placing an individual in an institution because there happens to be a bed in that institution and no other adequate provision of service as an alternative.

There are various responses in various parts of the system that we have to look at. The user fee concept, as the deputy described it to you, has generally been one which has been advanced for use in the primary health delivery system and in that system we are not contemplating using it.

**Mrs Sullivan:** Perhaps I can just follow that with a supplementary on co-payments.

**The Chair:** Excuse me, Mrs Sullivan. You are out of order, please.

**Mrs Sullivan:** I know, but I wanted a question.

**The Chair:** I would like to move along to Mr Stockwell now, please.

**Mr Stockwell:** I guess quite a few of my questions actually were asked by Mr Kwinter. I thought they were very good questions actually and well timed. The difficulty I am having is that I think we have a monster on our hands and it is just totally out of control. I think it takes dramatic action to bring it under control. I think probably most people would agree with that—except maybe some people in this room—in this province.

I look at the transfer payments over the last five or six years and they are eating up nearly 50% of the transfer payment budget, and it is growing. In fact, in some cases some people are suggesting that it is going to be almost 100% of your transfer payment budget by the end of the century, and it is scary. Can we afford the system as it sits today? I think everyone would agree that the answer seems to be no. It cannot fund itself.

The question now is on your new directions. I hear talk from you and the deputy minister about new directions and where we are heading. How long until we determine that they do not work too? I think that is the question that is on my mind and I think on a lot of constituents' minds in the province. You know, "Let's go through this process," and it seems like we have been going through a new process every year for the past five or six years, and there are a new idea, new directions and all these lovely words when none of them work.

It seems to get farther and farther out of control and here we have the new government coming forward, using a lot of the same words the old government used and saying, "Trust us." Fine. If we trust you, how long before we determine that this was in fact a colossal flop. We are going to have to drive a stake through the heart of this system, because obviously it is just totally out of control, and relook at the whole process. How long are you going to give your new directions, your new programs, your new processes and then decide whether they are a success or a failure?

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**Hon Mrs Gigantes:** I am certainly not contemplating, nor is this government contemplating driving a stake

through the heart of the health delivery system, for sure. I think that the measures that you and the people of Ontario will put to the success of what this government, as the previous government, is attempting to do in redirecting delivery of health care services will come slowly and incrementally.

I do not think we can expect dramatic change, and I think dramatic change in this system would not be an appropriate response. I do not think it would be meeting the first test of the system, which is to deliver service that will meet the health needs of Ontarians who need health services. We cannot tear up that system and start from scratch. In the meantime, people need help and they will continue to get help through our health care delivery system.

We will look for change and we will build for change and we will demand change and we will urge change and we will provide incentives for change and we will provide disincentives for the status quo in certain areas. We will use a combination of measures, to the best of our ability, to try to achieve those changes in direction which we have spoken of. Also, we will ask members of this Legislature and members of the public for their ideas about how we can improve what we are doing in searching for change.

It is quite fascinating to me in this new role to receive—I have not asked for a count—myriad letters and I know there are myriad phone calls too that come both to the ministry and to my office, lots of suggestions from people about how to improve the system. I think there is an active realization on the part of the public and certainly on the part of a lot of service providers that change is needed. A lot of the ideas that come to us in written or verbal form in fact reinforce some of the methods we are trying to use to effect change. But it is going to be slow change. I think fast change is not healthy.

**Mr Stockwell:** Just to follow up, I can buy into your slow change, I can buy into your incremental change and the fact that it is going to move slowly. I am not suggesting for a moment that that may not be the best route to go. What I would like to know is what your goals are. How are we going to measure your success? Frankly, we had better start measuring the success of this system before it thinks it has a life of its own already, but before the Legislature takes over our lives. How do we measure your success in two or three years? Tell me what your goals are. If you have not achieved them, we can come to this committee and say: "Gee, you didn't achieve your goals. What about your new ideas?"

**Hon Mrs Gigantes:** Overall, I think that is not a hard thing to do, because within five and 10 years in a given population you can certainly see what happens to the life expectancy of the overall population and the quality of life measured in terms of health measures for the overall population, and you can do that for significant groups in the population which have had inadequate support for achieving health. I think of groups, for example, like the native population in Ontario, which have unacceptable standards of life expectancy and quality of life. We will be able to measure that change. It does take time obviously, but those things are measurable. In other areas I would like to lead



the deputy to speak about some of the measures that being set in place, but there again I think that members his Legislature and the public will in the future be able look at standards and measures and ask, "How well is delivery system doing?"

**Mr Phillips:** That is, first of all, life expectancy.

**Hon Mrs Gigantes:** I think it is a very important rally test.

**Mr Stockwell:** Mine were financial by nature. Mine are the questions regarding your financing, the costs.

**Hon Mrs Gigantes:** Money is one of the easiest things to count. You can count how much gets spent. Then I will have to balance the effectiveness of the spending and whether we are achieving better quality in the system for what we spend. Those two things should not be impossible for you.

**Mr Sutherland:** Just an observation: Maybe the problem is just that we are an unhealthy population to begin with, I do not know.

My other comment was in terms of developing a provincial management system for this. I have talked to many people in my constituency about health care and hospitals and things like that. There is always the concern that a provincial health system is not going to meet community needs. In some cases they may not be able to get all their services within their community. That is not so much a huge problem in my riding, where you are only an hour away from good health care no matter where you live. In one of the other ridings that may be a concern.

I am wondering if you could comment on that for those people out there who are very concerned about getting health care in their own community. If we are moving to a provincial management system, does that mean some people may have to go farther for certain kinds of health care, and does it mean that in some communities not all areas are going to be able to be provided?

**Hon Mrs Gigantes:** I would hope it would mean that people would not have to go as far for most health care services. I would hope that as we build up community-based services people would not have to go, for example, away from their homes in many cases and into institutions to get the kind of service they need.

Obviously, at the very technical and highly specialized level of service, the consolidation of service delivery is important. It is important, I think, in terms of quality as well as in financial terms. Management of the health system helps us to try and ensure that that is done on a reasonable and equitable basis. Again, the deputy might like to talk more about this, but there has been some improvement in the way people get access, for example, to coronary surgery, if required, in Ontario.

That is a result of hard work, both on the part of providers and on the part of people working in the Ministry of Health to try and make sure that happened. And it has opened. I think there is a better system now of delivery of that service, highly specialized service, than there was two or three years ago. You will probably find evidence in communities around Ontario that that is the case. That can

happen in a number of other areas; there is still a lot of work to be done.

**Mr G. Wilson:** I guess my questions have largely been answered by the discussion to this point, although I did want to make one observation, especially in relation to Dr Barkin's response to the question of user fees. I am pleased to see we are learning from experience, as outlined by your points about why it does not work. I was reminded of the present dismaying situation in the Gulf, that there we do not seem to learn that war is not the way to settle problems. Of course, that also raises the question of how we are able to afford the huge costs that are associated with that, yet here we are very concerned about the cost of health care.

Of course, it is a valid concern. I guess my question arose, though, with the question of education. Dr Barkin also referred to that, education being an element of health care in the sense that we have to encourage more healthful living practices. I was wondering about the education of the larger population and what role the Ministry of Health is taking in that, both with regard to the population at large but also to the providers of health care in the system at all levels, not only doctors and nurses but right down to the orderlies in the hospitals, as well as the transition we are hoping to make into different kinds of health care. What is in place there and what is the response?

**Dr Barkin:** The minister has asked me to answer your question. There are certain things we are doing and certain things we ought to be doing more of, and we will certainly be exploring that as we evolve the priorities of the budget.

Let me first tell you some of the things we are doing. On the population side, we have had two goals, first, to educate people as much as possible to care for their own health and when their health fails to educate them to use the system and services available to them wisely. On the first half, educating people to care for their own health, we have had our healthy lifestyles program. You have seen the media stuff, you have seen some of the stuff that has gone around in the schools, the little playlets we have. We have also had some very specific disease target population education programs. I am sure all of you are familiar with our AIDS information programs, the AIDS hotline, the AIDS advertisements and that kind of thing.

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In terms of educating the providers, this is of course something we have to do in partnership with the providers themselves. We have developed a very impressive array of programs and program ideas now with the various provider organizations, be they hospital or community, professional, physicians or health care workers, and we can go over that list.

But there is one you did not mention, which I would like to perhaps bring into this. We are a system, generally—and that separates us even from our European counterparts—that relies very heavily on citizen governance. Hospitals are governed by citizens; our public health boards have citizen governance. The participation of citizens themselves in the governance of health services is a direction which almost every Premier's Council and royal



commission has recommended and encouraged, including the most recent recommendations from the Premier's Council on health.

Last year we embarked on a program of educating those citizens who are in public governance positions. It was one of the most well-received education programs. We educated these lay members who sit on the professional self-governing bodies and lay members who sit on boards of health. We have now been asked to try to expand that education process to deal with all citizens who are appointed to various boards that have a governance responsibility in the health care sector. We think that is probably a very significant area of public education that hitherto we have overlooked. That was an idea, by the way, which came from the board members themselves, so it is simply listening to them and responding to them.

**Mr Jamison:** There are a couple of questions I would like to explore with the minister, and they are rather pertinent as far as I am concerned, about the funding of health in this province, but I would like to make a comment that we are an unmanaged system and we can probably bring in a better way to manage the system. I really believe that.

The questions I am about to ask deal with the situation across the border, in the United States, and how hospitals there seem to be—we ran into stories a while back in the papers about hospitals actually advertising to Canadians to use their particular hospitals; our problem with drug and alcohol rehabilitation. That particular situation is the initial question I would like to address and have you give me a feel about where we can go, what our thoughts are on that and what kind of drain it is causing to our system.

The second part of the question deals directly with transfer payments from the federal government—it is my knowledge that transfer payments have been consistently cut by the federal government; it looks like that is an ongoing theme—and what effect that will have on our ability as a province to generate the revenues to actually replace those essential funds that allow us to better operate a health care system.

**Hon Mrs Gigantes:** First, I will speak very generally on the second question; that has to do with what kinds of sources of funding are available through our arrangements with the federal government. Those very questions now sit before the government and will have to be answered in an overall response to our agreement with the federal government and our working with other provinces to find long-term arrangements when existing arrangements run out.

We have been dropping in terms of the level of funding we receive for the health services we provide in this province. It is a serious problem and the government will be addressing that along with the question of funding for post-secondary education as one part of the established programs financing arrangements that are made with the federal government. Those will have to be renewed within a year, as I understand it, so we will be taking a position that will try and accommodate not just health funding but also post-secondary funding, and work to achieve some kind of overall position that the provinces will take.

As you are aware, as one of the three have-not provinces in the country, we have been subject to some special constraints in terms of the funding that is available from the federal government. We will have to work from that position, but it is a serious problem. Quebec has worked out special funding arrangements over the years with the federal government. It has taken tax points in lieu of flow of money. It may be that that is one of the ideas that we have pursued, but the Treasurer can speak better to this, so I will give him our full attention when he asks for advice. We need money in our system.

To get back to your first question, which is out-of-province treatment, it is a complex area. Out-of-province treatment has provided a safety valve for Canadian health care services in general and in Ontario quite specifically ever since we first had health insurance. It has been very useful in areas where we have not built up a level of specialist services in one area or another, to give us time to provide a base level of service in Ontario when that has been required. It has created crises in some areas of service, but those crises, I think, reflect the problems we have had providing service within Ontario.

I spoke earlier of coronary surgery. We now have the capability in Ontario to provide within an appropriate time length, at this time, for coronary patients in Ontario. That is a satisfactory position for us to be in. That is not true in the area of drug rehabilitation and alcohol rehabilitation programs, and it is not true in terms of head injury therapies.

We need to build those services and at the same time we need to develop the mechanisms that can help us stop the system which has been left in many instances to self-refer. For example, if I decide that I need rehabilitation therapy because I have a drug problem, I do not need a doctor to refer me currently for American service. We can put referral measures in place that will help control that sort of referral system.

We are working very hard in the Ministry of Health now to develop an overall proposal for out-of-province treatment, the control of costs and the assurance of quality for out-of-province treatment. We need to do a lot more work in the areas where we are missing service and we still need to have a better handle on the use of the system out of province, if I can call it the out-of-province system by Ontarians. I think it is safe to say we are building the knowledge on who is using those services and in what circumstances, and what methods of control we should be placing in that system to make sure: (1) that we are not having Ontarians refer themselves outside Ontario when that is not necessary; (2) assuring that when Ontarians seek service outside Ontario, it is good quality; and (3) when Ontarians get service outside Ontario, we are not paying too much for it. I think all those areas are problems currently, and we are developing policy which I hope will be before the government and ready for implementation before too long.

**Mr Jamison:** That answers my question. My problem with the initial question was that it has really concerned me that the opinion is that some private health establishments in the United States are considering our system.



newhat of a cash cow. It would be to their benefit to tap  
our system to the maximum degree.

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**Hon Mrs Gigantes:** We have set up some rudimen-  
y reviews of particular institutions and particular pat-  
is of use through the OHIP billing system in which we  
beginning to inquire in rather strenuous ways about  
tain provisions of service and the cost of those services.

**The Chair:** I would like to interject at this point. We  
running 20 minutes over and there are a number of  
er people who have questions. So I would need guide-  
e from this committee at this point as to whether we  
uld like to continue. We have two more presentations.  
we give up part of our lunch hour in order to continue  
give fair hearing to everybody, or do we terminate the  
estions at this point for Health? I need guidance from  
committee.

**Mr B. Ward:** We move along.

**The Chair:** Is there a consensus to thank the Ministry  
Health for coming?

**Mr Phillips:** We are asked to recommend some bud-  
numbers. My initial question still has not been an-  
ered and I may not have it today, but I think the  
nmittee needs some idea, to meet the objectives of the  
nistry, how much money are we talking next year? Be-  
use otherwise we are absolutely flying blind and this is a  
rd of your budget here. I thought we would have some  
a. Are we talking about \$16 billion or \$15.5 billion next  
ar?

**The Chair:** Perhaps we could ask them to send along  
ne budget projections in rough numbers for us so that  
can consider those.

**Hon Mrs Gigantes:** The answer at this moment is  
it we do not have a figure that we can give to you. We  
working on budget preparation ourselves.

**The Chair:** Whatever numbers you can provide the  
nmittee, I think, consensus-wise would be appreciated  
d as soon as possible too.

#### ONTARIO PUBLIC HEALTH ASSOCIATION

**The Chair:** The next presentation is the Ontario Pub-  
Health Association. I would like to thank the presenters  
coming, Suzanne Jackson and Ronald Labonte, past  
esident. You can begin your presentation now, please.

**Ms Jackson:** The Ontario Public Health Association  
a 3,000-member organization of community and public  
alth professionals. Our principal goal is to provide lead-  
ship and a unifying voice for public health in Ontario.  
e principal goal is in order to maximize the health of all  
tarians through the development of effective public  
alth, health promotion and disease prevention strategies.

We appreciate the opportunity to speak to you. The  
ucture of our argument is that we would like the govern-  
ent of Ontario to reorient its health policy from one of  
estments in health care to one of investments in health.  
e have some suggestions for that. Within the health care  
ocations themselves, we believe that the emphasis

should be shifted from physicians, drugs and hospitals to  
community-based models.

That is a difficult decision to make, to hold the line on  
health care spending and to increase it in the community  
side. So we are arguing that we should initiate community-  
level discussions to talk about the tradeoffs necessary  
between obtaining the best level of care for an individual  
patient and how much that compromises the level of health  
for the greatest number of people who live in Ontario.

Our first argument is that we should be spending less  
in health care and more in the creation of health. This is  
based on the concept that was presented by the previous  
speakers, the deputy and the Minister of Health, that public  
policy measures are much more fruitful for creating health.  
One's personal health is much more dependent on environ-  
mental quality, supports for child development, income ad-  
equacy, employment opportunities, housing adequacy,  
physical safety and security and food availability.

If these things are the determinants of health and if we  
are going to create health in the province, those are the  
areas we need to be moving on. Unfortunately, we believe  
that the continued increases in the health care portion of  
the budget provincially have taken away the ability to  
make policy decisions and increases in the areas which we  
believe would be more productive in terms of increasing  
people's health.

We recommend that the government not increase  
spending in the hospital, physician and drug benefit ser-  
vices in 1991-92 and that over the medium term the gov-  
ernment progressively decrease spending in these  
envelopes relative to spending on the determinants of  
health.

There are many health determinants you could spend  
your time on and debate spending your efforts on. We have  
concerns about environment. We have concerns about in-  
come, employment, food, all of those areas. In particular,  
we emphasize that increasing investments in social welfare  
reform is a specific and urgent example of our belief in the  
need to develop a comprehensive provincial health invest-  
ment strategy, an investment in health as opposed to health  
care.

We noted in previous briefs to this committee that the  
cost estimates of full implementation of the Social Assis-  
tance Review Committee recommendations would have  
far greater long-term cost savings than similar expendi-  
tures within the hospital and physician service sector. So  
we believe it is of vital importance that this budget affirm  
the new government's commitment to full welfare reform.

We call upon the government to announce in its 1991-  
92 budget a timetable for full implementation of the SARC  
recommendations. We realize that they cannot all be im-  
plemented in one year, but we think that it should work out  
a staged process for implementation of those reforms as a  
major step towards creating health for the people of Ontario.

This is supported by work in other nations. Again, that  
was referred to in the deputy's paper, that those having the  
greatest after-tax income equality have the lowest infant  
mortality rates and the longest life expectancies. This is  
independent of the absolute level of income within the  
country. So we believe that government policies supporting



income redistribution, such as welfare reform and more progressive income taxation, are vitally important public health policies.

That is our picture of the overall budget in terms of trying to shift and put more emphasis on policies which create health. Within the health care envelope itself, we would like to shift the emphasis from institution to community-based models. There are three ways in which a shift to community-based models can improve public health.

One is that community-based care may lead to reduced costs in the medium term. We emphasize that those will not be realized in the first few years and in fact you will have some doubling up of costs for a period of time. However, we believe that public health will be improved in Ontario to the extent that proportional savings in this province are directed towards greater funding of policy initiatives related to community care. We also believe that the natural networks of community and family support are more likely to be maintained through a community-based focus on health care and that that is very important.

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Recent research has found that the relative risk of mortality and morbidity for persons who are socially isolated is two to four times greater than for adults who have good social networks and support. It is very important that these natural networks of Canadian family support be supported and that local community governments allow for greater responsiveness to local health needs and issues. We believe that is an important aspect of the community-based system.

We recommend that the government increase its fiscal support to community-based models of health care service delivery. We also, as a corollary of that or a particular example of that, would like to emphasize support for the natural care givers.

One example of this is that, when we were sponsoring a series of public consultations on the government's proposed long-term care reforms, the Ontario Public Health Association was informed repeatedly that the ability of the natural care givers to continue in their role is made very difficult by the loss of employment income. To the extent to which we can support natural family and friend caregiving networks, it is economically less costly than professionally provided care or institutionalization. We recommend that the government provide direct payments and/or tax credits for compensation of forgone employment income to family care givers.

We recognize that this kind of direction that we are suggesting is a difficult line to walk politically. We recognize that the government, through its continued support of the Premier's health council, is aware of the decreasing benefits of putting more money into health care spending. We are getting a decreasing margin of utility by doing that.

The problem comes down to people who live in the province of Ontario who are concerned about access to health care and the best health care services possible, so their interest is in the best possible care for the individual patient.

When we are looking at it from a public health perspective, we are also seeing it from the broader outlook which is that we should be looking for the most efficacious care that creates the greatest good and creates health for the greatest number of people in the province, and there is a fundamental contradiction there.

Again, the kind of tradeoffs that we are talking about match concerns that people feel who live in Ontario. People are increasingly concerned about the quality and sustainability of their physical environment, the fear of violence, the continued high cost of housing, especially in large urban centres, and other issues of social equity, fairness, and they are all dealing with the basic determinants of health. What Ontarians do not realize is that this is a parallel concern for access to the latest medical technology. Hospital and pharmaceutical procedures can compete with their desire for a safe environment and a more equitable society.

What we are saying is that continued growth in health care budget provides little or no marginal health return for the size of the investment, and in fact we would get a better bang for a buck if we invested more in policies that create health. We know this, you know this, we are not convinced that the majority of Ontario citizens know this. Until they do, politicians and government budgets will continue to reflect a policy of health care investment rather than a policy of health creation investment.

We recommend that the government create the necessary political support for a health investment strategy for the province of Ontario by initiating a series of community forums on the ethical limitations of health care spending such that direction is provided to politicians, health care professionals and other public decision-makers.

That is the principal thrust of our argument. We have an addendum in that it is a long-standing public health policy that tobacco use is one of the single leading preventable causes of morbidity and preventable mortality. We continue to support taxation policy recommendation.

I believe you have had or you will have a brief presentation by the Canadian Cancer Society, the oncology society, heart and stroke, the Ontario Lung Association, non-smokers' rights, a consortium of these groups who are making recommendations for tobacco tax policy. We support those recommendations.

As an additional point with respect to supporting those recommendations, we would urge you to ensure that total provincial tobacco taxation revenue matches or exceeds public expenditures related to tobacco products including disease treatment costs attributed to tobacco, safety protection costs, health education and promotion initiatives related to stopping smoking or tobacco use reduction, the cost of smoking cessation programs, the cost of research into medical treatments and the cost of foregone crop substitution and displaced tobacco worker job retraining programs. All those costs should be matched by the kind of revenue we are taking in in the tobacco area.

**Mr Sutherland:** I saw that you were in the audience when the Minister of Health and the Deputy Minister of Health were here. I was wondering if you would like to comment on any of the statements that they made about



transition process into this community care. You have urged us to go very quickly. The minister and the deputy minister said there is a problem in going quickly. Do you see there is a problem with going more quickly than maybe what the minister and deputy minister have indicated?

**Mr Labonte:** First of all, we regret that we actually were not here for the full comments of the minister or the deputy, but we reviewed the deputy's written comments. Our argument is basically that we believe that until such time as expenditures in the institutional sector are frozen, any proportional increases in the community-based sector are necessarily going to be small. They have shifted over the last couple of years and we have been very strong in recommending the Ministry of Health in attempting to make this shift, but the sheer size of institutional budget means that it is a very small incremental gain.

We would argue that you need to close down institutional spending in order to build up that parallel system. That also would likely involve some tough negotiations with the federal government, because part of our problem is that the federal government gave us 50-cent dollars back in the 1950s to build the institutional side, not the community-based side. It is a matter of internal policy in the ministry, how they go about trying to make this change. Standing on the outside, we would continue to prod and push that this change needs to occur quite rapidly. I do not know if that answers your question.

**Mr Sutherland:** Just one supplemental. How do you ensure that you still retain your quality of care within a quick transition process? That seems to be a bit of the dilemma that the minister and the deputy minister were pointing out.

**Mr Labonte:** A difficulty that underlies even that is at right now we do not have full quality assurance within the kind of care that is provided and we have this declining margin of utility in terms of what we are spending. So we do not even know that what we are paying for is giving us the quality that we want. Any time one makes a transition from one particular system of delivery to another system of delivery, there is going to be an awkward period where, yes, there is going to be some discomfort in terms of full ready access.

That is why we underscored the necessity, because politically we recognize that politicians with their four- or five-year horizon are going to face the demands of their electorate. Their electorate often wants or equates their own personal health with their hospitals or with their doctors or access to these services. We know from research that we are not getting any return on that kind of service. Until the public begins to engage in that debate and begins to work with the government in making that transition, we are going to continue to have this imperative to put more money into the large capital expenditures on hospitals and other disease treatment.

**Mr Christopherson:** I apologize for missing part of your presentation. I had to arrange to get some cold medicine. I am rapidly deteriorating here with a cold a friendly colleague of mine passed along.

I appreciate hearing your presentation. Prior to coming here, I was chair of the regional health and social services committee and was very active in the healthy communities concept. I think that ties in very much to where you are going here. My question is just specifically on a budgetary matter. At the time I left regional council there was a great deal of enthusiasm in our community and in our council for the mandatory health program. The direction, the thrust, even the phase-in period seemed to be pretty exciting. Then the funding announcement came through. After the announcement, the reality: There was not enough money, at least in our region, to meet the three-year phase-in program that indeed had been approved by the Ministry of Health.

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Is that situation still alive? Are there still concerns about that and are you comfortable that the three-year target mandate—it might have even been four, but I think it was three—can be met, and any other comments you might have about that program vis-à-vis the healthy communities concept and everything you are talking about here, meaning that as a vehicle or one of the vehicles?

**Ms Jackson:** In our association, a great deal of our membership is made up of people who work in the public health sector. We definitely support the mandatory core program directions. We are concerned about the lack of funding commitment that went with the policy statements that we favour. That is part of the argument that we are making towards supporting community-based care, also to support community-based health initiatives such as the public health and community health programs.

If you want to know whether they can be implemented in three years, I think the three-year timetable has posed a lot of problems for many health units in the province. At the same time as they agree, many of them are very supportive of the recommendations and are trying to do something about it. I do not know if that answers you. We are very committed to supporting those directions and in fact are working on ways to enhance people's understanding of the best news that has occurred in public health in years. We are in favour of it but we are concerned with the lack of funding support for it.

**Mr Labonte:** The other thing too is that we wanted to be unique in coming to this standing committee and not asking for anything for ourselves—

**Mr Christopherson:** We noticed that. We appreciate it.

**Mr Labonte:** —even though we recognize that we would like to have more funding in public health programs. The basic argument is that we would need to have funding in the determinants of health and that is compromised by institutional care spending and the rate of that spending, and we need to have within that envelope more shift over to smaller, community-based agencies.

**Mr Christopherson:** What is the first step? If you were given the chance to make one decision, a practical decision—I am not talking about changing the world in one step. If you were asked and had the opportunity, what would be the first step that you would see us making down this road?



**Mr Labonte:** We actually have five very simple steps, which are our recommendations. The first is to sort of freeze the expenditures in the hospital, physician and drug side and announce the full implementation of the Social Assistance Review Committee because of the equity question and its incredible impact in terms of long-term health, because of the child poverty issue.

The shift to community-based is a little more difficult to measure, but what you would look at within the ministry budget is that the community mental health, the community health and public health budgets would increase significantly relative to the hospital, physician or drug benefits. Something I would really like to emphasize to this committee is the need to engage in community-level debates over the ethics of the total scale of health care spending, because even if you do quality assurance programs and you make sure that what you are getting is in fact efficacious, effective and efficient, you still have not raised to the self-conscious or political level the debate about the tradeoffs: If you put our money here, where are we not putting it in terms of other things which may be more vital or important to health?

**Mr Christopherson:** The only problem, and please accept this in the vein it is meant to be offered, is I really did not see that as a step. To me, that is the major leap. I mean, you are asking for all of it to be done in one fell swoop, and as a new member of government, I do not know how realistic that is. My experience even at the regional level tells me that something like that would be very difficult to do in one move, which is why I asked the question. If you could see one concrete, doable, solid step forward that really would get us going in the right direction, what would it be? But I appreciate and respect your answer.

**Mr Phillips:** One of your fundamental recommendations, which I think is an interesting one, is to shift the focus. I think, as we talked earlier, many of the commitments that have been made by the government go the other way. I think there are some major commitments to the Ontario Nurses' Association. Most of ONA works in hospitals, and that is an understandable commitment, and binding arbitration to physicians.

I think the minister earlier sort of rejected one of the major recommendations from the Lowy report on drugs, so your recommendation to shift the focus to community-based may be a little late, at least over the short term, because the major components—hospitals, 75% are salaries for nurses and for staff, and I think both of those are fixed in place now, or close to it; the physicians with the binding arbitration, and the Lowy report major recommendations.

It may be very difficult for this government to act quickly on your first recommendation. I just make that observation because I think that will be a challenge for all of us. The fact of the matter is that there is incredible commitment already made to the institutional segment. But my question really is on the community-based. And I agree with you, and I think the minister said earlier they were going to shift and put more emphasis—specifically what kind of money are we talking about and can you give

us some examples of the groups that we should be looking at substantially enhancing support for to help community-based care?

**Ms Jackson:** Some of the community groups would be community health agencies, support for some of the informal care giver networks that we mentioned specifically in the brief. In many communities the hospital is a community centre, so there are outreach programs, there are possibilities other than focusing simply on the community health centre as an alternative. But it is working with other community agencies, including support for public health units and the long-term care reform recommendations which involve looking at both the kind of care that is provided through the Ministry of Community and Social Services, as well as through the Ministry of Health. Those kinds of agencies, as well, are important to support.

**Mr Labonte:** There is a polyglot of community-based agencies.

**Mr Phillips:** A what?

**Mr Labonte:** A polyglot; like a huge, strange, flots and jetsam floating around there; a variety.

I think what is important to understand about community-based agencies and what makes them a bit different is because in some small areas a small hospital may in fact be a community-based agency and it may be the area of focus within that whole community where people sort of go for a variety of things besides just tertiary care. But most instances hospitals are very large. They are kind of the analysis of the factory model and so forth.

A community-based system of care could be a community health centre—that is probably about the best model that we have in Ontario right now—like the centres locaux de services communautaires in Quebec. It is to some extent public health units, community health agencies that exist across the province. But what is important is that first of all, a community-based agency has to be small enough that it does not become a huge bureaucracy that is inaccessible by the people in the community.

It has to have some direct, meaningful form of community governance so that community members actually can run and make some decisions and try to integrate not just the tertiary issues of care but also some of the health promotion, disease prevention and public policy issues in care. It is easier to define it by what it should look like rather than what it actually is, because we are in the transitional stage of trying to establish a network of community-based services to supplant our large institutional sector.

**Mrs Sullivan:** I wanted to pursue your point 1 on page 7 where you suggest that community-based care may lead to reduced costs in the medium term and then talk about longer term effects later on. The expert analyses that I have read have indicated that in fact over the longer term Ontario ought not to expect to see a reduced portion of the budget committed to health care. What we would see is a difference in the delivery vehicles, but not a significant difference in the budget proportion. I wondered how you have reached this conclusion. It is certainly not one that



st government nor, I think, this government considers to an appropriate conclusion.

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**Mr Labonte:** We acknowledge that when we say that estimates of eventual cost savings are speculative and subject to debate. The jury remains out on whether it is going to be simply a redistribution to other vehicles or whether there in fact will be a total savings within the envelope of complete health care expenditures. We acknowledge there is a lot of disagreement about that.

Certainly we say that in the medium term, as you are going to set up a new system, the old system is also going to continue and also is going to require some funding. So you are probably going to have a period of a bit of economic growth that will occur as you try to set up the parallel.

I do not think that anyone, at this point probably, knows whether a community-based service delivery system is going to be cheaper for the same type of services. It may be, it may not be. Some evidence says it will be, other people disagree. That is why we tag on that final recommendation, because it still begs that question of, How much do the citizens of Ontario want to spend on treating disease, with relative declines in the margin of utility for their own health in that expenditure, if it is going to compete with the other sectors—for example, the Environment Ministry or in economic development, for things like jobs, safe environment, adequate housing, safer quality food—when it begins to compete with those determinants? That is why we believe quite strongly that this discussion has to begin to take place; otherwise we are going to continue to have discussions about how to allocate for health care spending rather than allocating for health.

**Mrs Sullivan:** Certainly in my community the longer-term analysis has been done in terms of the economic effect and cost of an integrated community-based funding delivery system, including some institutional portions, but as well, a lot of community-based services. Our view locally is that it will cost more than our current system is costing, given what the goals are at the end of the line and where we are going. So I wanted to pursue that.

I think that in terms of budget planning we would continue to be looking at about a third to 40% of the provincial budget being committed to health care, no matter what the delivery system. That is sort of what we are looking at in this committee.

Could you just comment on changes in impact, say, on human resources and the cost of delivering community-based services, as you are looking to change? I am thinking about things like impact of travel, say, for nurses or costs that might not now be factored into the system that even in the transitional phase may have to be factored in. Do you have any analyses of those kinds of incremental costs?

**Mr Labonte:** No, we do not. In fact, what you are actually proposing is something that would be quite exciting to do for the current system, as well as for any proposed new system. I think what you are doing is saying, Let's begin to internalize to the extent possible what all

the costs of maintaining the system are," because in your statement that the community-based care delivery versus the current system might cost more, one of the reasons—and this is where there has been some research. It looked at community health centres and said that they may not be cheaper than fee-for-service physicians, but community health centres offer all kinds of things that fee-for-service physicians do not offer. They are less easily quantifiable, but they have various kinds of support programs, various kinds of community entry points to sort of begin to look at policy or shifting some of the environmental issues within their neighbourhoods. So they offer more than just what a medical system, as it is defined, offers.

To some extent, unless we are very clear about what we are comparing, then we might end up with eventual cost estimates that are kind of like apples and oranges. So when we look at this notion of internalization, I think we would want to do that within the whole hospital-based system or institutional-based system, alongside the community-based system, and then see what in the community-based system is being offered that is not currently being offered by the institutional system so that we can make an honest comparison.

**The Chair:** I would like to thank you for coming and for your presentation.

While we are having the transition between this group and the next one, an issue of some importance has come up. We have been requested by the Canadian Bankers' Association that it would like to come and make a presentation to us. They are past the deadline, but they would like to make the presentation anyway.

A second issue that has been brought up by Mr Kwinter is that the rate of bankruptcies in Ontario has been going up very rapidly. The question to the committee is whether we could find time to have somebody come and speak to us about bankruptcies. We could also invite the Canadian Bankers' Association to come and speak to us about this issue. Is it the will of the committee that this invitation be extended?

**Mr Christopherson:** Who would be the expert to talk about bankruptcies?

**Mr Kwinter:** Let me give you a comment. The Chairman passed me a note and asked me whether the banks were pulling the plug too soon and what we can do about it.

**Mr Christopherson:** On bankruptcy?

**Mr Kwinter:** Yes. It would seem to me that if we could get the Canadian bankers to come in here and address what they do about this thing—what kind of tolerance do they have? Are they in a position, when times are tough, to maybe lessen their criteria or to do something?

**Mr Christopherson:** Maybe I misunderstood. I thought the Chair said there were the bankers and somebody to address bankruptcy.

**Mr Kwinter:** No. He was saying that the bankers have asked to come, and I do not think it has anything to do with bankruptcies. That is just a coincidence. They have just asked to come.

The other question is that this report that came from Canadian Press today says that bankruptcies in Ontario



have grown by a whopping 81% over 1989, just a staggering number. It is something we should be dealing with. I do not really know who, other than a large accounting firm that has a very strong bankruptcy section, we could ask; someone like Ernst and Young or whoever. There are some firms that really specialize, unfortunately, in bankruptcies. It might be useful to have them come in and talk about what they see as the underlying cause, things of that kind, and see if we can address it.

**Mr Christopherson:** Exactly. Are you comfortable with mandating the Chair to work with the clerk and the staff to find one or two groups that could address that? Are you comfortable handling it in that fashion?

**Mr Kwinter:** Sure.

**Mr Christopherson:** If you are, I would prefer to move that we do allow the bankers to come in and that we mandate you, Mr Chair, to co-ordinate one or two groups to come in and address that bankruptcy issue. I think they are good suggestions on the part of Mr Kwinter.

**The Chair:** I take it there is consensus to move in that direction? Thank you.

**The Acting Chair (Mr Sutherland):** The Chair has just had to step out for a minute so he has just asked me to take his position, if there is no objection from anyone. Our next presenter is Mr Howes.

TERRY HOWES

**Mr Howes:** Perhaps we should put my little presentation over until after lunch. You have had a long morning; I mean, in fairness to me and to you. I have important things to say.

**The Acting Chair (Mr Sutherland):** No one is going to deny that you have important things to say. We have a presentation at 1:30. I am at the will of the committee on this one.

**Mr Christopherson:** On a point of order, Mr Chair: To hold Mr Howes over until this afternoon would not work at all, because all the slots are filled. However, are there—I know we have been having a real time problem—other possibilities for a slot for Mr Howes?

**Clerk of the Committee:** At this point, the last time slot is on the morning of 4 February to accommodate those who are on waiting list. We are into the third week of hearings.

**Mr Christopherson:** That would probably be your best bet.

**Mr Howes:** Listen, I promise I will not bore you. I have about a 15-minute presentation.

**The Acting Chair:** We can do it right now and we will allow time for questions as well.

**Mr Howes:** Good. I hope you have some, too. I feel more comfortable standing, so if you do not mind I will.

**The Chair:** You will have to sit down, because the mike will not pick you up.

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**Mr Howes:** The Unclaimed Intangible Property Act was given royal assent 19 December 1989. All three readings

were given in a 14-day period, something that as far as I have ever heard was unprecedented, yet 13 months later the act has not been proclaimed. I was the one who brought this situation to the attention of the former Chairman, the fact that there was all kinds of money that should probably belong to the people of Ontario that was being used by others, whose money it was not.

I was very interested in why this act was not in force. I found out that there has been intense lobbying going on in this Legislature, lobbying by the most powerful money people in this country, with a lot of clout. I made a freedom of information request and months later I got copies of their presentations.

It is a real blue ribbon group, I will tell you. You cannot get any more blue ribbon than this: the Canadian Bankers' Association, which is going to be appearing here in a couple of days, and I would like to hear what they have to say on this topic in particular; the investment dealers; the Insurance Bureau of Canada, that is the insurance companies' lobby group; the investment funds; Canada Trust; National Trust. The list goes on and on. Here they are. Believe me, it is not bedside reading. It took a lot of plowing through this.

One is of particular interest. This is the one from Royal Trust. Try to make any sense out of that.

**The Chair:** You are going to have to sit down, because we cannot get it on the record.

**Mr Howes:** Try to make any sense out of that. This piece de résistance is the last page. All it says is appendix 1 and not another word. Royal Trust is a member of the Bronfmans' Hees International Bancorp. Some would say they must have something to hide.

Anyway, there is one thing in common to all the presentations, to every one of them. They do not want the law. They do not want it to begin with but, second, they most assuredly do not want it to be retroactive.

The trust companies' trade association was the most vehement about this. They sent in no less than seven letters and submissions. I am going to quote short quotes from some of these submissions and I hope you will listen to me because some of them are pretty convoluted. They are bureaucrats, not people talk. I will translate it in a minute.

"It is the long-standing practice of the industry to bring many types of unclaimed property into income. The program should be no retroactive effect to the program."

Finally, after 10 months of lobbying and figuring out how they had it anyway, they bit the bullet and allowed as how they could put up with a five-year retroactive period. I am going to show you that the retroactivity and the kind of money involved is mind-boggling. Anyway, they finally allowed as how they could live with five years.

Canada Trust in its presentation said that unlike the banks, "there has not been previous legislation in Ontario governing the transfer of unclaimed properties." With the chartered banks, as we all know, if an account is dormant for 10 years, the money must go to the Bank of Canada. Not our trust companies. Our trust companies just keep it. Believe me, they make no try to find the people who



money this is. I know what I am talking about, because it is my business.

National Trust is particularly interesting. They said, "It is a general practice for certain unclaimed balances to be turned into income." This is the punch line; it is really good. We feel strongly that the present system of administering unclaimed funds is sound and effective." I do not blame them for feeling that when you consider what is in it for them. No wonder that Hal Jackman guy is so rich. They even threatened us with a constitutional challenge to the act. It is all in these presentations, every word of it.

The insurance companies' trade association is very interesting too. They said that, "retroactivity of legislation of this nature, which is in effect a tax, is contrary to our parliamentary traditions." As we all know, only profits are taxed, so obviously our insurance friends regard this money as pure, clear profit. Their rationale is very interesting and very convoluted, so you have to listen carefully to it because it is quite funny.

"The general thrust of Bill 86 is to safeguard in perpetuity the rights of the owners of intangible property while at the same time allowing the use of intangible property for the benefit of the people of Ontario." That sounds great, like motherhood.

In reality, this is precisely what these fine folks do. "By investing these funds in various public and private instruments in the province of Ontario, the income earned on these funds helps to keep general insurance premiums at low levels." I think car drivers would question that part of it. "Thus, as it stands, the Ontario public benefits in two ways. First, the funds are used to finance the provincial economy and, second, help to bring about lower insurance premiums."

What they are saying really is that our insurance friends know better than the elected representatives of the people what to do with insurance policies which have not been claimed. We are talking about a lot of money.

London Life asked—what a nerve—"that you exempt our industry from the act's application." They did not say why; they just asked to be exempted.

All of these companies operate in Quebec, every one of them. In Quebec, for many years they have had a law called the Public Curatorship Act. The public curator is the equivalent of our public trustee. All moneys from life insurance policies that have not been claimed go to the public curator and have for years. Yet they ask us here in Ontario—we are so dumb—that they should be exempted from it.

Under Ontario's Insurance Act, it says—without boring you with the reading of the legal doubletalk—that an insurer may apply to the court for an order for payment into court. He may do it, not that he must do it. Believe me, they do not do it. The operative word is "may." They just keep the money.

To give you an idea of the kind of money we are talking about, this was an ad that was in the New York Times, April 1990. You need a magnifying glass to read that thing, but that is one company, the United States Life Insurance Co, in one state. Those are people who had not claimed their life insurance policies and all this money

went to the state—one company, one state. We are talking megabucks. In New York state in 1986, which is the latest year for which I have figures, \$5.7 million went from life insurance companies to the administrator of abandoned funds in that state.

The Insurance Bureau also finally admitted that it could live with five years of retroactivity, but I am going to try to make a point and convince you that that is nowhere near good enough.

The investment dealers' association is a little more candid. They say, "The practice has been to bring the balance in the unclaimed property account into income of the dealer." They have a lot of money from dividends that people do not claim. The stock is in the broker's name and they do not know whose money it is. There is a lot of it.

"The proceeds from unclaimed property may have been distributed long ago to the shareholders of the dealer." In other words, they just helped themselves to it. At least they are candid enough to say it.

Barclays Bank: Let me quote from their presentation, "Our objection is that when applied to travellers cheques the act results in an unjustified confiscation by the government of part of the sole consideration which is received by the issuer of travellers cheques for the services it provides." In other words, they count on people not cashing these travellers cheques and they just keep the money.

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Mind you, they do not point out that American Express has just made heaps of money. They live with the US law and in every state of the union, I should say 48 of the 50, the money for these uncashed travellers cheques goes directly to the abandoned property, but Barclays does not think it can afford to do that.

The racetracks of Ontario, now they are a great group, but at least they are really candid. They say they just help themselves to these uncashed cheques, and they out and out say it; not only that, but they give the figures. They are really good people. The Ontario Jockey Club right here in Toronto, for example, in 1989 scored \$966,000. Would you believe it? How many of you throw away those tickets? I have done it loads of time. Well, it was \$966,000 in 1989. No wonder the late E. P. Taylor liked to own racetracks. Anyway, ladies and gentlemen, I respectfully suggest to you that with their own words we have caught them with their hands very, very deep in the cookie jar.

Last November Premier Bob Rae said, "We're practical people who frankly can add." He was referring to his NDP colleagues and I sure hope they can, because I can convince anybody that we have at least \$200 million that we can scoop for the good people of this province by applying this act retroactively as it presently reads. That is what it presently reads. We do not have to change a thing.

The abandoned money belongs to the government of Ontario; at least, the government of Ontario and the people of Ontario have a better claim on this than anybody else. This goes back in the common law to the Middle Ages, that abandoned property belonged to the Queen. I suggest we tell our friends here—look at them all—"Here's what we're going to do. You know perfectly well from your books over the years—and don't tell us you don't, because



we know you do—buried in your the books it says how much money each year you have scooped from unclaimed property.” And you believe that every single one of them would know it. Let them keep the interest they have earned on this money over the years. Can you imagine what it would amount to? There were years when interest rates were at 20%; this money would have doubled, tripled, quadrupled and dear knows what. Let them keep it. Give the capital to this province to ease the burden of the taxpayers of this province.

That is my presentation, ladies and gentlemen. I respectfully give it to you. I know what I am talking about. I hope you have some questions.

**Mrs Sullivan:** Mr Howes, I am familiar with the presentations you made some time ago to Mr Nixon before the bill was introduced and I wonder if could you give us some estimate of your experience, although you have been operating in the private sector, of the collection costs?

**Mr Howes:** Yes, I sure could.

**Mrs Sullivan:** Okay; I think that would be interesting.

**Mr Howes:** You will have to bear with me for a moment, Mrs Sullivan, because I have it here. It is approximately 6%. There is only one state that breaks it down.

**Mr Sutherland:** There is reference in your brief here. It says New York has 6%.

**Mr Howes:** I do not think it is New York.

**Mr Sutherland:** On the very last page.

**Mr Howes:** Yes, 6% and, after all, surely that sounds like a reasonable sum. What is involved, after all? We tell these custodians, “Come up with the money.” In the state of Pennsylvania they have quite a few collectors out beating the bushes, getting this money in, and they found that it works great, because it will come as no surprise that people are not too keen on shelling it out. Does that answer your question?

**Mrs Sullivan:** Yes, thank you.

**Mr Howes:** It is the only state I can speak of, but common sense says that it should not be very expensive. It is one big money spinner. It is the second-largest source of income for many, if not most of the states. We are talking about big, big money. Would somebody like an estimate as to what we would get in this province, because I can give it to you?

**Mrs Sullivan:** I suppose I was asking the question because I was just doing some calculations. You have talked about the jockey club, for instance. They plow, say, \$1 million a year back into their revenues. They also receive funding from the province, so presumably provincial funding would have to be made up for the lack of the availability of that \$1 million.

**Mr Howes:** It is a profit-making organization, Mrs Sullivan. I do not know why it should be.

**Mrs Sullivan:** That is interesting.

**Mr Howes:** E. P. Taylor, God rest his soul, was no public benefactor and he controlled it.

**Mrs Sullivan:** We could argue about that, but I am thinking about the context of an Ontario Jockey Club

operation or the Ontario Racing Commission which receives funding and probably would have to get more funding; I do not know.

**Mr Howes:** Mrs Sullivan, with respect, I would suggest that perhaps we should speak more of where the real big money is, the trust companies that fought so hard not to have it retroactive, and the life insurance companies particular. We are talking about so much money. Would anybody like a very calculated guess as to how much we are talking about? Would it interest you?

**Mr Sutherland:** Actually, that was my question. You said \$200 million retroactively.

**Mr Howes:** I am being really conservative.

**Mr Sutherland:** I want to know what your estimate would be on an annual basis, ignoring the retroactivity.

**Mr Howes:** At the very least \$25 million, and probably double that on an annual basis. Let me tell you how I arrived at this figure. Delaware gets in \$10 and change per person. New York gets \$11 and change per person. The reason for that is that Delaware is the major state of incorporation of companies in the US, as is New York the major commercial centre.

Ontario is both those things, so we have every reason to think that our take should be approximately theirs, not to mention that this is a major resource province and there is much income from the likes of gold mines and so on. Believe me, it is my business. I know what I am talking about, ladies and gentlemen, I really do. Anyway, cut it in half. Supposing we can only do half as well as New York or Delaware. That is \$5 per person times nine million is \$45 million on a continuing basis. All kinds of money sliding through the cracks. I make my living out of it.

**Mr Kwinter:** I would just like to make a couple of comments. I have no problem with the act as it was passed—I am glad—and I have no problem with the concept. Where I do have a problem is that you have painted absolutely black and white and it does not work that way. Let me give you the reverse, to use your analogy and put it in the simplistic terms that you have placed.

**Mr Howes:** I did not understand it any other way, Mr Kwinter.

**Mr Kwinter:** Let me just give you an example. At the present time you are talking about all of these unclaimed assets, that if we had only clamped down and got them all we would have this \$25-million bonanza, whatever it is.

**Mr Howes:** Much more, hundreds of millions.

**Mr Kwinter:** Whatever, that is fine, whatever the amount is. On the other side, we have a situation in our economy where every major retailer, whether it be Shopers Drug Mart or Canadian Tire, factors in as a fact of life that they have shoplifting, and shoplifting ranges anywhere from 6% to 10% to 12% of their annual sales. Those costs are staggering. You could make exactly the same argument that, my God, if we could only have armed guards at every single store and put everybody under surveillance and do a strip search, we would save this enormous incredible amounts of money.



What I am saying is that what you are saying, in principle, I agree with, but I think there is another factor. Let's take your example of the jockey club. The jockey club is not hiding the fact it has this money. It is not saying, "This money is something we put in our pocket." It declares it in its statements and it says that for every dollar that is spent, there is X% that does not get claimed. It uses it as income, but it is also liable. In 20 years' time, if you come back and you have that ticket, it will pay it.

I am not justifying the fact it is using it, but what I do want to point out is the fact that you are implying that E. P. Taylor and his heirs have this sort of scheme going where they are pocketing this money. What is going to happen if that money does revert—and under the act, it would—to the crown? It will then say: "Traditionally and historically we have had X dollars available to us in our operations. We can't hide it. We declare it. We show it. If we don't have it, then we're going to have to compensate. We're going to have to increase all of our charges to make up that shortfall."

I can tell you—again it just happens we are talking about an area I am very familiar with—contrary to what you are saying, the racing industry in Ontario does not make a lot of money. The Ontario Jockey Club in particular is a non-profit organization and it really is. I am not crying for these guys, because I can tell you that if you are poor you are not in that business. It is the sport of kings. It is a rich man's hobby. But if anyone thinks they are getting into the racing business to make money, he will be sadly mistaken. The people that are in it are in it because it is something they enjoy doing and they—whatever turns you on.

The point I am making is that it is not just black and white. If you flip it from one side of the balance sheet to the other there will automatically be a compensation. Whatever industry it is, whether it is the insurance industry or whatever else will say: "Fine. We've had this money. We declare it. We show it. We use it as part of our operating expense."

**Mr Howes:** No, they do not declare it and they do not show it. Believe me, they do not.

**Mr Kwinter:** I think it is on their balance sheet. I cannot see how it cannot be.

**Mr Howes:** No sir, it is not.

**Mr Kwinter:** How could it not be? The banks all show it.

**Mr Howes:** That is because the banks have to send it to the Bank of Canada.

**Mr Kwinter:** I know, but I used to be the Minister of Financial Institutions. I can tell you—

**Mr Howes:** Mr Kwinter, that is my business.

**Mr Kwinter:** It may be your business, but I am telling you that when an insurance company has income and expenditures, it is audited. They are subject to inspection by the department of insurance, and if there is an amount in

there it is shown. It is shown as unredeemed benefits, whatever. There is a figure in there.

I am not saying that they are not benefiting from the interest that accrues and all of that stuff, and you may not agree with it and I do not agree with it. That is why the act was passed. We are not arguing. I am just saying that you are portraying these people as somehow or other being involved in some subterfuge. All you are doing is you are arguing the principle that that money should not be theirs, and that act addresses that. Your next argument is why it was not proclaimed. That I cannot answer.

**Mr Howes:** I can. I can answer it. Do you want to ask me?

**Mr B. Ward:** I just have a quick question, Mr Howes. Tough economic times are facing the province. We are exploring all avenues of increasing revenue or opportunities for revenue and you are suggesting that this is one avenue that should be explored and examined, and the fact that there is a bill drafted makes it that much easier.

**Mrs Sullivan:** It is passed.

**Mr B. Ward:** It is passed? It was just never proclaimed. Why was it not proclaimed in your opinion?

**Mr Howes:** Exactly.

**Mr B. Ward:** It is on the books. I do not know. But that this is something that we should look at as a committee is what you are trying to say.

**Mr Howes:** That is what I am begging you to do, and not to go for this baloney about the retroactivity. I beg you, have no pity on them. They do not deserve it.

Maybe a case could be made for the racetracks, Mr Kwinter. Let them keep their million a year. But how about Hal Jackman and his National Trust? Should he be here rattling a tin cup? Or put it this way—I tell you, the essence of the problem is this: Can these people whose money it is not, handle it better than the elected representatives of the people of this province? That is what it boils down to. It is not their money. They should not have it. Can they handle it better? Can these insurance companies? Do you take pity on them?

**The Chair:** I would really rather not get into that philosophical debate here. Are there any other questions? Seeing none, I would like to thank you for bringing this issue to our attention and I am sure we will be debating this again a little later on.

**Mr Howes:** Listen, when they turn up, would you ask them? Ask them. It is all here.

Interjection.

**Mr Howes:** Isn't that a laugh? Do you want to see it? Here, this is a classic.

**The Chair:** For the entertainment value, if any would like to continue the discussion with Mr Howes, that is fine. I am going to adjourn this committee until 1:30 pm; we have moved things up a little. So thank you very much. We will see you.

The committee recessed at 1225.

## AFTERNOON SITTING

The committee resumed at 1341 in room 228.

**The Chair:** Just prior to beginning the afternoon session, I would like to read the response from the governor of the Bank of Canada to our request that he come to meet with us and, failing his coming to meet with us, to send a designate to meet with us. I will circulate this and I will just read the part that I believe is pertinent:

"While the Bank of Canada has of necessity to limit the number and scope of public appearances by the governor and other officers, it nevertheless firmly subscribes to the view that its policies and actions should be widely available to public scrutiny and discussion. To that end, above and beyond his appearances before Commons and Senate committees, the governor gives public speeches on monetary policy and the economy on a regular basis. The bank also publishes regularly that part of the minutes of its board meetings having to do with economic and financial developments and monetary policy. I can add that the governor's annual report to the Minister of Finance also represents a key element of the public record and is usually discussed at public hearings of parliamentary committees once it has been tabled in Parliament.

"Accordingly, while it is not possible to meet your specific request, I would be most happy to send to you or to Mr Decker forthwith a full range of the material to which I have just referred, if you, as we, think it would be helpful. My telephone number..." and so on.

I will put on the record my own view of this. It is that while all this information is useful and I think we should request it, I do not believe it will answer the salient question that this committee must deal with, and that is the projections of the Bank of Canada for the coming year, and the questions I feel we could have asked, being what does he foresee the value of the Canadian dollar being, the interest rate and the growth of the economy by the end of the year?

Would any other members like to have their comments on the official record?

**Mr B. Ward:** Just for clarification, we are requesting the material that the Bank of Canada is willing to provide to us? Is that right?

**The Chair:** Yes, we are.

**Mr Christopherson:** Just briefly, it is just disappointing that when this committee and the government, quite frankly, and the Treasurer, have gone to such great pains to talk about public consultation, to go through a procedure that allows everyone to have a say—and we have heard that from the people who have come before us—an integral part of that is the federal policies of the national bank and they have not come forward to expand on those issues and allow us a chance to question them. I realize they are concerned about this being an inquisition, but that is kind of the political downside of an open, public process.

It just needs to be said that it is a great disappointment that the Prime Minister would support and allow that type of attitude and approach to a serious provincial initiative such as pre-budgetary consultation in the fashion that we

have undertaken here. I do not think it would be inappropriate for a letter—procedurally, I do not know if I am in order or not; I would look to those who have been here much longer than I—from you or from an appropriate minister to express our disappointment to the Prime Minister that there is not even a delegate here. I can understand if the individual cannot attend, but that not even a delegation would be here, since we are hearing that federal interest rates and the federal dollar have such a significant impact on everything we are looking at. I would hope we could take something stronger in terms of action other than just putting on the record our official disappointment.

**The Chair:** I would entertain that in the form of a motion, if there is a seconder. Is there any discussion on that? Do we have consensus on that?

**Mr Sutherland:** Just as a point of clarification, is not the Bank of Canada governor under the Minister of Finance? So probably it should go directly to the Minister of Finance.

**The Chair:** Copies to both?

**Mr Sutherland:** Sure.

**Mrs Sullivan:** I think you have to be careful about looking silly in these things. The governor of the Bank of Canada is not subject to the whim of this committee. It is a national body. He reports to Parliament through the Minister of Finance. We want to see a policy direction rather than an opportunity for grandstanding, a policy direction that is a result of policy decisions coming out of the federal government. It may be appropriate to invite Mr Wilson to appear, because that clearly is where the policy is coming from. I think we have to be realistic about the role of the Bank of Canada and its ties and obligations to this committee such as ours, as well. You might want to invite Mr Wilson to appear.

**The Chair:** Do we have a consensus on inviting Mr Wilson to appear?

**Mr Christopherson:** I agree with just about everything the previous speaker said. I am just as concerned, maybe even a little more so, about how we might look publicly since I am a member of the government side of the House. Obviously, if anything looked political, it would be to invite the Finance minister. Again, the intention, at least on my part, was not to bring in someone from the bank to grandstand or put him on the spot, but I would really like to hear first hand his rationale, not just a policy paper. But we could also put the kind of questions that are being put to us, especially in the area of the high interest rates and the dollar.

I do not profess to be an expert on the federal economic system. However, my understanding is that Mr Wilson has continually taken a position, and the Prime Minister also, that they cannot and/or will not direct Mr Crow to do their bidding and that it is a relatively autonomous institution that makes its own decisions based on how it sees the economy and what screws need to be tightened and loosened and when. I still feel comfortable sending



etter expressing our disappointment to the Prime Minister that Mr Crow would take this position and that no one, not even a representative from the bank, would be here. I would rather leave it at that and would not feel so comfortable with the recommendation of the previous speaker.

**The Chair:** Is there a consensus? If I understand it, the motion is I should write a letter expressing our disappointment that they would not come, and request all the information that is—

**Mr B. Ward:** May we have a clarification of Mrs Sullivan's suggestion of an amendment—or is it just a suggestion?—that we invite Michael Wilson?

**Mrs Sullivan:** We do not have consensus. I mean, we might have consensus, but you have a dissenter.

**The Chair:** I have one dissenter, or two dissenters.

**Mr Kwinter:** If you are going to write the letter and say that you are disappointed and “send out the information,” I see no problem with that, if that is all you are going to say.

**The Chair:** Okay, then I will undertake that, and I think we should begin our afternoon presentations.

#### HALT INCREASING TAXES

**The Chair:** We have Halt Increasing Taxes; Bill Adler, chairman, and Frank Cawkell. If you would begin your presentation, please.

**Mr Cawkell:** Thank you, Mr Chairman. We are the Richmond Hill Halt Increasing Taxes organization. We are located in the town of Richmond Hill, representing a number of ratepayers' associations for 1,300 homes at this time, but growing, within York region and the town of Richmond Hill.

The motion we bring before you today is really that we hope to see budget increases coming out of all levels of government no higher than the level of inflation and that could be a maximum or a ceiling on such increases.

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What we are seeing today and the discomfort we see within the taxpaying groups we represent is really that we need to eliminate programs which are putting a burden on taxpayers. We recognize that we are in a recession, as we all do. We, like everyone in this room, are taxpayers, and we are willing to tighten our belts provided we are given leadership and help to do that by the governments.

We have seen over the last number of years what we feel has been communicated to us as a downloading by the federal government on the provincial, and the provincial on to the lower levels of government. That is a concern to us because the buck ends up stopping at the taxpayers. The way the lower levels of government are collecting those extra dollars is effectively through our own house taxes, which, being taxpayers, is really the place where we are most vulnerable. We do not have the options in paying house taxes that we do in paying federal and provincial taxes in terms of deductions and methods of payment.

What we feel we are seeing today are various levels of government effectively downloading, passing the buck, a lot of finger pointing. Ultimately the taxpayer is still paying the same type of tax dollar and taxes are still going up,

they are not going down, so the burden is being shifted. It is being shifted right down to the home owner—not just to the general taxpayer but to the home owner—at the municipal level of governments.

What we would like to see and hope to see is a true reduction in total taxes at all levels of government, some of the things that we feel we have seen certainly in businesses today looking at opportunities to eliminate waste, to really not shuffle money when we make a savings—“Oh good, I've saved some money here, now I can spend it there”—but effectively to eliminate it. There is nothing wrong with coming in under budget at the end of a year, and a lot under budget if we can. We should be commended on that within government.

A presidential mindset in budgeting: We feel that if every one of us in this room, when we spend any money, but particularly, hopefully, within levels of government, spending money and budgeting money, each dollar should be looked at as if it came out of our personal pocket. We should be asking the question, “Would I spend this money if it was only mine and coming out of my personal budget?” We need that type of responsibility in government today.

Zero-base budgeting approach is a buzzword I am sure a lot of us are familiar with. We see it in business more and more today. The days of saying “What did I spend last year? Great, inflation's 5%; we'll add that on and I'll start there. I've got that much money to start,” those days should be over. What we spent last year is immaterial. We should be justifying what we are spending in our budgeting process from a zero base, now justifying and working out every dollar that we are spending. What we spent last year is immaterial. If the program cannot be justified in 1991, although it may have been in 1990, it should not be in the budget. Only with that type of approach can we effectively minimize the increases we are seeing in budgeting.

As we all know, and as we have listed here, these are recessionary times. We, as a group, have started and have been in existence for two years. We have been going to the municipal levels of government as a start, to our own town councillors, regional members of government, councillors, mayors within the York region, to the school boards, realizing that in the lower levels of government the school boards are a large chunk of the house taxpayers' tax dollar, going to them to get their commitment on a similar motion.

We need this type of responsibility from government. We need this leadership from government, and we hope it will be very refreshing that we will all stand up and be counted. Certainly the days of finger-pointing to other levels of government need to stop. We need to see people stand up and say, “I will take on this challenge.” We hope that your committee and the provincial government will do so.

**Mr Sutherland:** First of all, thanks for coming forward. I have a property tax coalition in my riding of Oxford. We talked about the issues. I engaged in a lot of discussion with people in my riding about these issues and how we pay for some of them. What you are saying is, no one likes to pay more taxes. That is granted. We all realize



that fact. But there are a lot of realities. There are growing needs out there.

Within this province, and certainly within this country, we have said that there are basic values and things that we think are very important that should be provided. We had the Ministry of Health this morning and we talked about the health care system and other areas, public education. They take up the largest portion of the budget. I guess my sense is that, having these values about how these public systems should be, is it your impression that people want to have those values, want to have those things but may not be willing to pay the price for them? That is not meant to be on an individual basis, but in the sense of a public system and public taxation, which seems to be the acceptable way in the values of funding many of these systems.

**Mr Cawkell:** Yes. A lot of the public, we feel generally, always ask for more, and we always will; we always have for the last number of years. We feel, given the right understanding as to where that "more" is coming from, that now the public is effectively at a breaking point, where, "Yes, I would love to have another nurse in every hospital, but if that extra nurse is going to cost me X dollars more, I am to a point today in this environment where I can understand where maybe I will have to put that request on hold."

**Mr Sutherland:** I want to come to the education issue. We certainly know about the downloading on to the municipalities, and you talked about provincially mandated programs, and certainly education is the area where it has come. I want to give some credit to the past government. Some of those initiatives have been positive, because the scientific evidence of smaller classrooms, particularly at the lower grades, and things of that nature are very positive.

I am of the opinion that if we are not willing to make the commitment to education at all levels, skills development and retraining right now, then we are not going to have a healthy economy later on. You can hold the tax base, you can hold your taxes on the issue of education and you can try to stop that, but I think you are jeopardizing our future economic wellbeing if you do that too much.

I am just wondering if you would care to comment on that aspect, that in some ways, even if you cut out the waste, education funding overall probably has to be increasing because, while there have been some gains made, this province and this country are far behind the rest of the world in what they are spending on that specific area.

**Mr Cawkell:** From what I have seen, although I have no figures in front of me, I beg to differ that we are behind other countries in the world. There have been a number of people who have said that we actually, among the seven largest industrialized nations in the world, spend almost the most on education, yet our educational dropout rate in the high schools is one of the highest at 30%. I would argue that we have been throwing money at education for a number of years. Do I see a good bang for my buck? No, I do not.

Yes, we are in a dilemma and we are in a tough position. I do not feel that throwing money at a problem will

solve it. I feel that highly motivated and innovative individuals will solve that problem. I feel that you can do a lot more, when properly motivated, with the same amount of money. Money is not the answer. We feel, as an organization, that perhaps in the past we have said money is the answer. I think where Canada is today has shown that maybe it is not, and I would say education is an example of that. Although the provincial government, true, has cut back its funding to education, education funding in total has still gone up over the last number of years. So we have not effectively cut back our money, I do not believe, over the last number of years.

**Mr B. Ward:** First of all, I would like to thank you for taking the time to come down to express your opinions on behalf of the Richmond Hill citizens.

There are two components I would like you to attempt to address or perhaps give us greater detail on. I think you are opposed to the concept, whether it is federal or provincial, primarily those two, where a program is implemented and is forced on a municipality and yet the proper funding does not flow with it. You would like to see a cessation of that type of policy as far as provincial or federal governments are concerned. Is that correct?

**Mr Cawkell:** That is correct.

**Mr B. Ward:** You have dealt with the municipality of Richmond Hill to a degree, I guess. You have made presentations. In the brief that we have, you have "Elimination of programs putting burden on taxpayers." Part of the difficulty of being a politician is that if you have to decide to make a cut, where do you cut? What programs do you cut out? Each program affects an individual or group of individuals. As a politician, you receive a lot of pressure from special interest groups. Do you have any suggestions that pertain to Richmond Hill that you see could be cut? Do you have any specific programs that could be cut? It is easy to talk about it, but do you have any suggestions as far as the provincial government is concerned?

1400

**Mr Cawkell:** We do not at this time. Our intent here was not to put forward any detailed programs about what could be cut. Rather than going to governments or school boards, where there are trustees we have elected on our behalf to monitor the expenditures in the school board rather than come forward and try to analyse their board or analyse the government in detail, and come forward with specific suggestions at this time, we have chosen not to do that. We feel we are not the experts. I do not pretend to be an expert in provincial budgeting. I do not pretend to be an expert, and our group is not, in municipal government budgeting.

However, we feel we need to generate an awareness among the governments and the trustees and the school boards that it is time to cut back, it is time to watch the money we are spending and be accountable for that money. Our position with all levels of government we have been with is that we are not averse to looking into areas and commenting on programs that could be cut. Asking trustees in the school board is an example, where they have come to us and said just that, "What would you cut?"



he said, "Well, give us some figures and we'll go through them together with you and talk about it." But at this time we are not really in a position to say this program or that program should be cut.

**Mr B. Ward:** So at this time you do not really have any programs that are not serving any purpose in Richmond Hill?

**Mr Cawkell:** No.

**Mr B. Ward:** You have not done a great deal in your citizens' organization? You do not have the resources to go to it.

**Mr Cawkell:** That is correct. I guess we could say that all programs we have initiated serve some benefit, as you pointed out earlier. There will always be an interest group. In any program, someone is taking advantage of it and seeing a benefit from it; at least I hope they would be. Our main point is that when times are in a recession, we need to trim those programs back. It may not be elimination of any given program, it may be just trimming across the board. That is the type of thing we need to be looking at.

**Mr Sadler:** I would like to answer your questions, Mr Ward and Mr Sutherland. Having gone around to a lot of the home owners and the home owners' associations, we find that the programs are those the minority want. God bless them, they get up and shout and get in touch with the members of Parliament and the local municipalities. The majority sit back and do nothing but complain and hope that maybe Frank and I will carry the ball for them.

However, we found out in the last election that the majority actually did speak out. I think the results are known. We are saying to the elected officials at the boards and at the municipal level and here, bear in mind that there are programs that are not essential and that should be cut. As Frank has so well put it, we have elected you people and we want you to make that decision. If we can help you, then we are here to do so.

One of the things that worried us was a comment made by the ex-director of the school business and finance branch. This was after he was an elected official. He stated that the local property tax was the easiest and best way to finance education, because there were so few complaints from the public. That is the type of thing that worries the hell out of us.

**Mr Stockwell:** It is very difficult for people such as this HIT group to come in and offer definitive program cuts. It is very difficult to ask an association to come in and do that. That is why we were supposed to be elected. I have always thought that we are supposed to offer them, and if we cannot find them, then the public does not think we are doing a good job and they find people who can find them—or maybe they do not want to find them at all. Those are the things you find out when an election rolls around.

On the other side of the equation, you can say the people come in looking for money. We don't say to them, "Well, you tell us where we should tax to get the money to give you." Nobody ever asks that question. We just try and find the money somewhere. If we cannot find it, we cannot find it; if we can, we can. But no one puts them on the

spot, saying: "Should we increase the price of beer or tobacco? You tell us where to get the money."

It is not really a fair question to ask associations. They are doing this in their spare time, this is literally a job they are doing for free—unlike ourselves, of course.

The other point I would like to make with respect to HIT, maybe not so much a question as a comment, is that your definition of a priority and government's definition of a priority are different. To people in the private sector who are in business, if something is a priority then it gets money and certain areas do not get money. That is how you define your priorities. The trouble with government is: "We have 28 priorities. Everybody gets more money." I think that is what the HIT program in Etobicoke is in fact suggesting, and the downloading is a long, debatable argument that will have more finger-pointing every time you enter into the discussion.

I would like to make a point with respect to where you make your cuts. I do not know if you even need to cut; maybe it is simply hold the line. A perfect example, though, is that the Minister of Labour today announced a program for new job training. Here is the Minister of Labour announcing new job training programs. What the heck do we have a Skills Development ministry for? We are spending \$400 million on a Skills Development ministry and we have the Minister of Labour announcing new skills development programs. There is a bit of redundancy there, duplication.

There are some examples that could be taken by this HIT group and given to you, but I do not really think it is fair to say to every group that comes in here, if they are asking you to hold the line on taxes, "Where would you find the money?" I think we are supposed to be elected to do that.

**Mr Kwinter:** One of the most common comments I get, particularly out in the business community, is, "If you guys would only run the government the way we run our business, everything would be great." Most businessmen have about three obligations. One is to their bank manager, one is to their wife and one is to their shareholders. If it is a matter of not being able to afford to do it, you just cut it out and that is it. It does not matter what the repercussions are as long as those three particular groups are happy.

In government it is not that easy. We are accountable to over nine million shareholders, and everyone thinks their priority is as important or more important than everyone else's. The genius of government is how you mobilize the resources that are available, both natural resources and economic resources, all of the things that are there, to try to do the most good for the most people. That is very difficult. It is very difficult, considering that we are in a situation where the rules keep changing.

At one time we lived in a very comfortable little niche where what we did in Ontario affected what happened in Ontario, with very little outside pressure. We are now into a global economy. To give you an example: R and D. If you talk to anybody who is looking at our competitiveness, R and D is the critical factor and unless we invest more in R and D we are going to fall by the wayside, we are not



going to be as competitive, our standard of living is going to deteriorate and we have to devote money to it.

At present, the United States is the highest spender on R and D in the world, at about 3% of gross domestic product. Japan is second at 2.8%. Canada is at 1.3%. In Ontario we are a little better, at 1.7%. You can imagine where Canada would be without the Ontario component, because 60% of all the R and D is done in Ontario.

We are woefully underspending and it is going to impact on us. Unless we get that spending level up, we are going to find that we are less and less competitive. Someone recently referred to Canada as a Third World country with illusions of grandeur. We are trying to maintain a standard of living that is comparable to the leading industrial and economic jurisdictions in the world and saying, "Let's do it, but let's not spend the money that is required to do it."

1410

I agree that anybody can look at government and say, "That program is getting money and it is unwarranted, and we should put more money somewhere else," but I think it is a simplistic sort of solution to say there should not be any more spending because it is impacting on the taxpayer. Under our system, anything we do impacts on the taxpayer. The role of government, as I say, is to get the biggest bang for the buck and to be accountable to those taxpayers.

You are presenting a point of view and I appreciate it, but I can tell you there will be 10 other groups that will come in and present another point of view in saying, "I want more of this," and, "I want a share in this thing. There is an élite that gets the major benefits of all of the things that are happening and we are shut out," for whatever reason, whether it is cultural, racial or economic. They want a piece of the pie. That is the problem we have.

As I say, I am totally sympathetic with the basic concept of saying there should be value for money. But I really think it is a little simplistic to say: "Hold your expenditures down. Go back to zero-base budgeting. The increase should only be the rate of inflation." If you do that, you are really relegating us to a non-competitive situation, because there are intangibles. If you are going to attract investment, it is more than just monetary. It is quality of life, it is the environment, it is all of these things, and there is a cost. You have to decide how much you can pay and how you allocate the sharing of that payment. That, as I say, is the genius of government or the folly of government—whatever.

**Mr Cawkell:** If I may respond to that, I think one point you made is very valid. The playing field we are on is changing all the time. We cannot agree more. Therefore, the need every year is to re-evaluate where the money is best spent, the best bang for the buck, as you said. R and D is one area, there is no question. It should be an area of focus for the government. It may not have been and probably was not five years ago.

What we are hoping is that we do not see a need to go beyond inflation, as long as we are letting go of what were yesterday's focuses. Are we letting go of the things that 5,

10 years ago were important, be they increases in social programs, where we increase spending. Are we letting go of those and then changing our focus to make sure we are competitive? If we see R and D spending being that area, so be it, it takes a priority. Are we letting go of money we spent in the past? We understand it is not easy. Being a government is not something that is very easy. At the other end, though, we really have to be able to let go of some areas to satisfy the taxpayers the best we can. When we cannot or when it may be in question, hopefully we will educate those taxpayers.

I guess one of things that even a lot of members of our group two years ago did not understand was how the money went, drawing the connection to, "Well, we wanted this program; therefore, I can't have this," or "therefore my taxes go up." Sometimes that connection was not always being made. If someone is coming in for money for a program, it is very simplistic to say, "If you get that where would you get it from?" but at the other end, it may help to facilitate an educational process within the public.

Yes, we need a number of the things you indicated: social programs and what not, to draw investment, but at the other end, as you pointed out, potentially in Ontario and in Canada we are running on a standard of life that we cannot support, and we are supporting it with government money. If we are going to be competitive in the long run we have to refocus where we are putting that money.

As we said earlier, throwing money at everything is not the way to do it. The zero-base approach is simply: What is most important? What is the best bang for our buck? How are we going to be competitive? Cutting back on the other end and then educating the people so that they understand, instead of selling ourselves as a government and saying, "Look at all the great things we are doing"—please do not be afraid to say, "We have to cut back here and we are doing some bad things, but here is why."

**Mr Sadler:** The point on R and D is very valid. I am retired and I love Ontario and plan to live here for the rest of my life. I have grandchildren and I have daughters and sons in Ontario, so I want to see us become very competitive. But if we put the money there then we have to find that someplace where we spent it before is not necessary.

We met with our member of Parliament in York and the comment was: "There is waste in any system. One thing I know about politicians is that ultimately they get their sense of authority by spending money." That is really, I guess, what the message today is. We do not mean to say that all the gentlemen around here feel the same way, but it is a fact.

I worked for a company. I was very selfish. I wanted to get as much as I could until the president of the company said—as you said—"I have to answer to shareholders." They might have been a lot less than the government has to answer to, but nevertheless he admitted: "There is waste in our company and we have to get rid of it. I won't tell the shareholders that. I only tell them what I want to tell them but I want to make damned sure when you put your budget together that you take that waste out of the system so I can give you a better increase in your salary and those working on your behalf."



**Mrs Sullivan:** There has been ample and interesting testimony before this committee relating to recommended actions by the government in dealing with the downturn in the economy we are facing. The recommendations from the economists have been that there be stimulatory spending, both in capital areas and in social areas, including training of workers and such areas as Mr Kwinter has addressed so eloquently, research and development.

Given the acceptance of those recommendations by government, there are two places where money can come from to pay for that. One is through new taxes; the other is through new debt. I would be interested in hearing your views on increasing the provincial debt.

**Mr Cawkell:** We would not be in favour of increasing the provincial debt. As we all know around this room, it is one of the reasons we, as a country, are in trouble today. I could, however, turn back, as I have with Mr Kwinter, that spending money on R and D and spending money on job training is the way we want to go. We do not want to be spending money supporting companies that cannot carry their load, and we are doing that at the other end of the spectrum. Such are the programs that we need to let go of.

Again, we are not here to say let's not spend money. We are not saying that at all. We are saying we had a large budget last year and we are looking for a 4% to 5% increase this year, thank you very much. If we need to go above that, then we really need to go back and see where we spend the money.

We can add R and D to the budget and increase the spending there. I would be all in favour of that. But, at the other end our message is that something else will have to go. The public needs to understand and needs to agree, as Mr Kwinter did so eloquently point out, that without this spending and this focus on R and D, our children will not have an effective country to live in.

**Mrs Sullivan:** I just want to clarify this. You seem to be leading us to the position that your view is that social spending should be cut. Is that your view?

**Mr Cawkell:** No. We are not cutting any given program, but our view is that we need to evaluate all the programs we do spend on, whether it be social spending, R and D, whether it be support for companies—we do a lot of work in the government where we support companies that are in trouble and lend them money for programs. There are a lot of things. We have our fingers in a lot of pies. What we would like to see, as taxpayers, is that we effectively evaluate those pies and then go back and ask where our money is best spent.

Social programs may be at the top of the list. When all is said and done, our nine million shareholders may say, "We need our social programs." So be it. Maybe we do not get the R and D spending. But if we do not get the R and D spending, I would hope our government would explain to the taxpayers without such spending the type of state our country may be in in the long term, the repercussions; that we make that trade-off and educate the people, to go that way. Potentially, with that understanding, with that knowledge, the taxpayers may very well say, "Well, then, turn

back the social programs a little bit and spend more money on R and D."

I do not have that answer, but that is the type of decision-making process that we hoped the government would take.

1420

**Mr Sadler:** Mrs Sullivan, I think what we are really saying is that it is priorities. You are the elected officials. We assume and we feel confident that you are the right people to make the decision as to where the priorities are and where the money should be spent. Going into debt, I am against it, personally. I see it in our own area up there. People are out of jobs. They are going bankrupt. To go further into debt and put a higher mortgage on their home, is that the answer? You have got to face your problem. You have to recognize that sooner or later you have to pay back that dollar.

Some of you were just having the motion, when we first came in, about the Canadian dollar and the rate of interest which affects not only government, but affects us, people who have mortgages, people who borrowed funds. There are more and more individuals going bankrupt and losing their homes. That is our priority in Ontario. We do not want to see that. We have seen a small town, Blenheim, that had a very effective tax revolt and said: "No more. We don't want it any more." They were successful.

I do not think that people are actually against the GST if those funds were being used to reduce the debt. As it has been said in the paper, you know and we know that if the money gets into their hands, it is going to go to other things. That was not the idea of the GST, and I am afraid that is what is going to happen. Really the message is, "We are not in favour of debt," if that answers your questions, and the reasons behind it.

**Mr Christopherson:** I had a few questions, but the time is going on. Just a very brief comment, Mr Chair, and that is, with a great deal of respect, that I would suggest to the presenters—and I do thank you for your position—I think that role needs to be played, that continuous pressure needs to be put on government, regardless of the party in power, to be watching the tax dollar. That is basically what this is all about, relative to the budget.

But I would say clearly to the submitters that there was an opportunity very recently, in the general election, to adopt the philosophy that said bottom line first, that the bottom line takes precedence over everything else and that from the bottom line you then deduct where you need to. I believe that the public spoke very clearly and it rejected what is basically, to many of us, a simplistic approach that does not reflect the needs of a modern society such as ours. If you need to see that example in action, stay and listen to the next group that I have heard first hand and will hear again and will listen to very attentively, and listen to the kinds of pressures that are there. That is repeated many times over, and very legitimately, by many groups.

The other thing is—and this is the dichotomy—that most people find themselves at one point or another as being on both sides of the fence. All of us rightfully say taxes are too high. We as government should never lose



sight of that feeling among the public. But by the same token, there are very few people who at some point do not say, "There should be a law about that," or, "There ought to be a protection," or if your child needs something, we do not say: "That should be provided. Why doesn't the government provide that? There is a real need for that." We do that so many times over and over that I think when you are sitting here and you see all that rushing at you, you begin to understand why the public says, "I reject the idea of bottom line first, but I am not going to let you forget that taxes and the impact they are having on my lifestyle is important." That is why your role is very important.

By way of a suggestion, and it is offered with the greatest amount of respect, I do think that if you want to be very effective—and I think you are very serious. Mr Stockwell makes the point that you are here on your own time. That says a lot about your commitment to this issue. The idea of coming forward with some specifics, although that may not be your role, is perhaps how you can be most effective, because again, I harken back, the idea of bottom line first was rejected by the public. Lord knows that has not been the position of the NDP, and we found ourselves in a majority position at the end of 6 September. So I think that the public has spoken there. What it wants from us now over the next four to five years is good government, to make those decisions that Mr Ward talked about, to do that balancing, that juggling. That is where we need both the carrot and the stick as a government so that we are going in the right direction and the public speaks loudly and effectively when we are going down the wrong road.

I do thank you very much for coming. I have enjoyed your presentation. I hope you continue. You have got an important role to play in the development of this budget and others to come.

**The Chair:** On behalf of the committee, I would like to thank you for your presentation and your time.

#### ONTARIO HOSPITAL ASSOCIATION

**The Chair:** Our next presentation is the the Ontario Hospital Association; Brian Birkness, chairman, and Gord Cunningham, president. Welcome.

**Mr Birkness:** Mr Chairman, thank you for allowing us the opportunity to make this presentation to you today. I would like to introduce myself. I am Brian Birkness. I am a trustee at Scarborough General Hospital and a volunteer, and the volunteer chairman of the volunteer board of the Ontario Hospital Association. With me is Gordon Cunningham, president of the Ontario Hospital Association.

On behalf of Ontario's 224 public hospitals, I would like to thank the committee for inviting the OHA to appear before it today. This is OHA's fifth term as a participant in this budget consultation hearing, and we find it a very useful process.

I would be pleased to explain in detail OHA's request for a 13.2% increase in operating funding for the next fiscal year, but I think that is well covered in our submission. We will certainly be prepared to answer questions on that. I feel it would be more appropriate and useful, in order to assist this committee in its work, if I indicated to

you the crucial issues that face Ontario hospitals. Following that, I would be happy to answer questions.

Hospitals are almost solely dependent on government funding. Just over 80% of hospital operating funds come from the government. While municipalities get only 35% and school boards get 45% of their funds from the provincial government, they have the ability to draw on local taxes. We do not have anywhere else to turn to make our funding shortfalls.

The graph at the end of our brief shows that government funding levels have not kept pace with inflation's impact on Ontario's hospitals. Over the past 10 years, there has been a continuous year-to-year shortfall in our funding. The hospitals' share of the health care spending pie has dropped a full 7% over the past 10 years while other areas have increased their share, such as payments to physicians and the Ontario drug benefit program.

Hospitals have little control over most of their operating costs. In addition, they have large costs imposed on them over and above inflation. Many of the increases are due to government-imposed programs, such as pay equity, as yet unresolved for many hospital groups, the employer's health tax and arbitrated wage settlements. As each of you well knows, in 1965 the province of Ontario introduced the Hospital Labour Disputes Arbitration Act, which requires compulsory arbitration of collective bargaining disputes by an independent third party and prohibits strikes and lockouts by hospital employees.

If I might direct your attention to page 8 of our brief, you can see at the bottom of that page the broad categories of typical hospital operating costs and the percentage accounted for by each of those costs. As you can quickly see, approximately 75% of hospital costs are related to salaries. When we speak about opening or closing hospital beds, what we are referring to are the staff salaries required to serve the patients who use that bed. Hospital budgets, because of this, are very sensitive to increased costs brought about by the result of collective bargaining. This is simply a fact. When you have close to 150,000 people working in the hospital sector, they are going to be very sensitive to adjustments in wages.

A graphic example of this is also noted on page 8 of the brief. For employees represented by the Ontario Nurses' Association, ONA, and the Ontario Public Service Employees Union, OPSEU, we have calculated that even a 1% increase in compensation levels above that currently prevailing in the hospital sector and as factored into our model would result in an additional cost of \$29.25 million. I would like to repeat that. Every 1% increase will result in an additional cost of \$29.25 million.

#### 1430

As well, changes in government legislation and regulations, which increase the cost of hospital operations, have a significant impact on hospital budgets which are already hard pressed by compensation packages and other inflationary factors.

On the subject of alternative care, it has often been suggested that the best way to reduce hospital costs in the long term is to move towards a home-based, non-institutional care program. Let me say once again for the record that w



agree conceptually with this approach. It is, however, a notion that sometimes is too easily embraced as a cure-all remedy. To us it is something that is very complicated, involving both massive attitudinal changes among patients and their families, doctors, nurses, hospitals and local communities.

It must be realized by all involved there must be a planned, co-ordinated approach to the kind of reinstitutionalization and decentralization envisioned. As well, in the transition to any such new system, there cannot be allowed to develop any patient-service gap. Without a proper infrastructure in place we could well have 224 different plans, approaches and standards of health care in Ontario. This is where government's role as a co-ordinating and funding body is so crucial if we are to develop an effective and workable system of community care.

At this time, alternative care is not in place. No one knows what the demand is for community services. How much will they cost? How effective will they be? They may very well not reduce health-delivery costs but rather increase them. Hospitals are now playing a key role in the provision of some of these services, such as social services, health promotion, illness prevention, a program of hospitals in the home, women's health centres and other outreach programs. Community hospitals have been very much involved in developing outreach programs and programs of hospitals in the home.

At this time, the OHA is concerned by the lack of overall provincial planning. We suggest that, before the decision is made to commit hundreds of millions of dollars to an alternative system, the government consider the community hospital as key to the delivery of quality, cost-effective, community-based health-care services.

Finally, as I said, hospitals are central to the life of any community. You need only look or you need only think of the 17 or so hospitals that the members of this committee represent and you will realize just how vital they are to your local communities and to your ridings, not just as health providers but as employers and as educators. Local communities are heavily involved as users, suppliers and hospital volunteers. The hospital is central to most communities; I would go so far as to say to all communities. As you look at the needed institutions in your communities, you need your churches, you need your places of education and you need your hospitals.

I hope we have been able to give you some indication of the importance we attach to being a governmental funding priority and the fiscal problems which we face. Our employees expect to be paid as they deserve, government expects us not to incur deficits and the public expects a first-class accessible community hospital system in this province. We hope to satisfy all of these desires. I hope that with your help we can continue to meet those expectations. Thank you very much.

**The Chair:** I have Mr Phillips first. He is getting on the list because he does not like to be left off.

**Mr Phillips:** I missed out on a couple yesterday, so I thought I would get my hand up early. First, I congratulate you, Brian, and the volunteers at the Ontario Hospital As-

sociation. If you do not mind my telling a little personal story, I was chairman of Scarborough General Hospital and I felt that Scarborough General should play a larger role in the Ontario Hospital Association, so I suggested to Brian that maybe he should go down and just do a little bit. Now look where you are. You must spend half your time on this job, and I think all of us do appreciate the work the volunteers do on behalf of hospitals.

**Mr Birkness:** And I hold you responsible.

**Mr Phillips:** And he is a different political stripe, just so you know he is not a—I will not say what, but just different.

**Mr Birkness:** I changed it a month or so ago.

**Mr Phillips:** A small, little investor in a New Democratic Party. Things have changed.

**Mr Christopherson:** Another instant convert.

**Mr Phillips:** I will get to my question, but I do think it was a thoughtful brief, and your recommendation to us to think carefully about the implementation of community care is a good one, because I think most people embrace it very much, your suggestion of making sure we know where we are going.

My question really is around something that we all know is just going to happen within the next two months. It is very difficult to talk about it because it is collective bargaining. But the reality is that 40% of your budget, I think, is nurses' salaries. I am not being partisan here, but the Premier did go to the Ontario Nurses' Association convention well after the election, well after the finances were in place, and essentially made some very significant commitments to the nurses in terms of salaries. That, in my judgement, will drive your budget, and that is just reality and that is what is expected.

I guess I am just looking for some help from the OHA, and I realize it is difficult in a public forum to provide that, but I know that the pay equity settlement that was reached recently with Sick Kids is I guess \$8,000 or \$9,000 per nurse. I think there are 50,000 nurses in the hospitals, if I am not mistaken. Can you help us out at all in terms of what we should be, or are we just going to have to let it unfold? Because I just think it is inevitable that there are going to be some tough times over the next three months, understandably, in the negotiations between the hospital association, the government and the nurses. I do not know whether you can be any more helpful than you have been in your brief in terms of the sorts of moneys that we should be anticipating to put into the hospital budget.

**Mr Birkness:** Gerry, as you know, the brief very clearly sets out what the impact is going to be on salaries if we increase beyond the amount that has been provided for in our calculations, which you are all familiar with and which we have made no bones about, that we have allowed for an 8% increase in these calculations.

The Premier has said that nurses are entitled to reasonable increases. I guess in this economy the obvious question is, what is reasonable? I understand a lot of people are holding the line at—we talk about a zero base, and it might be reasonable not to have your salary cut, I do not know, and certainly I guess that is the issue that the negotiators



are going to have to face. Hopefully it can be settled before it reaches arbitration. If it has to go to arbitration, I would believe that the arbitrators are also going to have to deal with that and should be aware of the consequences of these adjustments.

**Mr Phillips:** I just think, realistically, we should all recognize that either now or three months from now or something like that—because, as you have pointed out, 75% of your budgets are through negotiated settlements—

**Mr Birkness:** If I could add to that, Gerry, a concern I have is that, as you know, we at the individual hospitals operate on a global budget. Our requested budget is what we hope we would receive from the province, and if we receive that and if we find that the salary increases go beyond that provided and if those are not additionally funded to the hospitals, then once again we find ourselves behind in our funding and in our budgets. We will not be able to meet our budgets.

1440

**Mr Christopherson:** It is a pleasure again to meet with and hear from you, gentlemen. The only question I want to ask, because I did have the opportunity to ask some questions and listen to some more in-depth discussions when we were with the Treasurer, is that on the last page of your presentation, the second paragraph in, it talks about alternative care, community services. Let me ask, first, are we specifically talking about home care there? By and large, is it what you are talking about; the ability of home care to replace institutional care? Is that the issue there?

Could I ask you then, because I hear conflicting information—on the one hand, there was a general thinking for an awfully long time, relatively unchallenged, that in-the-home care would clearly be cheaper than institutional care, period, full stop. I have now, over the last year or so, begun to hear some people suggesting that this is really not the case and that if you start taking a look at some of the specific services and talk about fair wages for those individuals and the appropriate kinds of comprehensive care that may be needed, we may indeed be talking about a cost that is equal to and may be, as you suggest, even greater. I am not trying to set up for any particular party position. I am sincerely asking you what your thinking is on that particular issue of cost.

**Mr Birkness:** I do not believe that at this point in time, anybody has actually gone through the calculations to determine what those real costs will be, but as you consider, you have answered your own question. In fact, when you consider all the factors that go into delivering home care service, you can see that as you bring professionals into the home, you have to move them from location to location and there is going to be a substantial cost in doing that. I suppose that is one of the reasons why doctors stopped making house calls. There certainly is a substantial factor. Until we really know what the real cost is, it is going to be very difficult to measure that.

At the same time as I say that, the hospitals have recognized that many patients are better off in their homes than they are being in an institution. Having caring con-

cerned people around you is very important to an ill person. I think every one of us knows that if we have to be taken of when we are ill, it is always nice to have your spouse do that for you rather than being in an institution. People would rather be at home, but there will be a cost to do that and I am suggesting that if that is to be done, then the people who should be doing that are the community hospitals because they are well positioned to provide that outreach program and outreach service. A lot of that is already under way.

**Mr Christopherson:** To follow-up—let me make a note so I do not forget—I outlined some of the costs and that is one side of the argument. Of course, the other side very clearly is that you point to the dollar figure for a one-day stay in a hospital. What would be a rule-of-thumb figure for a stay in a hospital? Would it be \$300 plus, \$400 a day?

**Mr Birkness:** Or more.

**Mr Christopherson:** You have to talk of an awful lot of professional services and support mechanisms over the course of a month or over the course of a week for an individual before you would total the equivalent of \$400 a day. That is an awful lot of money.

**Mr Birkness:** Depending upon the acuity of the patient, of course.

**Mr Christopherson:** Yes, and the level of care that is required. I only ask the question. Again to be consistent with the positions I was arguing earlier, it is not that the bottom line is going to drive this. The desire to have individuals stay in their homes and the ability to stay in their homes is a social goal of this province. I think most people have recognized that and I think that is a motherhood issue.

The question is, if it does save money, clearly, and that is by and large an accepted fact, then we should be rushing towards it much more quickly than we already are, which of course is the opposite of what you are suggesting. If it breaks even, much of that same argument still holds. If there is an increased cost, then there is maybe more weight to your argument that we should move perhaps a little more slowly, to ensure that it is as efficient a system as possible.

I suggest to you that both sides of the argument, including the ministry people, are going to have to start putting more dollars on this issue, because especially in a time of recession that will have a significant impact on how quickly things are brought on stream.

Let me ask you one question. With the hospital providing, would you not agree that this is kind of running contrary to conventional thinking right now? Even that the institution would provide the community care runs contrary to the thinking that you want to devolve more and more to community care, community planning, community co-ordination and less involvement by the institution rather than even a maintaining of its current profile.

There is a lot of thinking that the institutional aspect is part of the problem and that it is far too bureaucratized and is not sensitive enough to the community. I know you could argue that point and you would not agree with it, but



would ask you, how would you suggest this government could respond to that position you are putting forward in light of the fact that it does run contrary to a lot of the current community thinking that goes hand in hand with this saying in the home providing support services concept?

**Mr Birkness:** I think the attitudinal changes we spoke about in our brief are being developed among medical staff, among nurses and they recognize the need to get a lot of the care out into the community, into the homes. As to the fact that the very people who should be providing those services are in the community hospitals, I think the structure has to be established to encourage the hospitals to develop the hospital and the home profile and to move that into the community, and possibly through a funding structure. That is the way that will be encouraged. You might want to add something to that, Gordon.

**Mr Cunningham:** This necessarily gets into two or three different subjects. First of all, the hospitals collectively and totally believe that we want as little institutionalization as possible. We want people in their own homes. The hospitals of Ontario in particular have shown leadership in Canada to have outpatient surgery in a great number of instances and have really concentrated on the fact that it is part of our duty to keep people in their own homes by keeping them mobile by knee replacements and knee operations and hip replacements and things that allow people to go home.

If we are talking about a fairly healthy individual who is mobile and may be able to work, but needs a therapy, it certainly is ideal if that person can go to the hospital daily or weekly or whenever he is needed for his therapy. I think it is absurd to believe that we should provide therapy in the home for those who are relatively mobile and perhaps being rehabilitated.

In the hospital, we must build a facility for the community, for outpatient surgery, for outpatient diagnostic things and for outpatient therapy, but one of the dilemmas we face is the aging of the population. We are getting more frail and we need multiple care. Certainly those who are getting elderly and frail we do not, as institutions, want housed in institutions. Ideally we want everybody to have the best life and if possible that should be in his own home. Then the question comes, how do we build that infrastructure to serve those people? Very often they need several therapies, not one.

We then come to the question, what is the most economic way? Mr Birkness is right that the literature does not yet show that it is any cheaper to do it in the community, so we have the question of economics and we have the question that the hospital is indeed a part of the community. For some reason we have slipped into the bad habit of talking about community services as though they were something different than hospital services. Hospitals are an integral basic part of every community where they exist. So it becomes a question of whether the hospital should be providing the multiple care for the frail who need it, or should we be setting up some other kind of infrastructure? That is the difficult part that you face in

your funding and it is the difficult part we face in being part of the community.

1450

**Mr Sutherland:** We had the Minister of Health and the Deputy Minister of Health this morning and they were talking about issues that we need a health management system and that this in itself has not really occurred. I want to focus in on a couple of areas. Perhaps you could give me your assessment of the situation.

I have three hospitals in my riding and no one in my riding is more than 25 miles away at the most from any of those three facilities. You mentioned the community aspect of it. All three of those hospitals have had expansions within the last five years. That is a great thing for a community. Everyone loves to be a part of that.

I am wondering, from your assessment, is it a question that those hospitals are providing—obviously they all have to provide similar basic services, but what about different services? For example, are there services one hospital could provide for the riding and another hospital could provide a different one, so people in the one community may have to drive to the other one to get that specific basic test, obviously not emergency-type service?

I have also talked to a few people who have been working in hospitals and they left me with a sense—this is meant as no disrespect to anyone who works on a hospital board, because I know it is not an easy challenge—that hospitals felt like they were in competition with their neighbouring hospitals in terms of they want to have their hospital doing the things and getting a larger share of the marketplace.

That type of philosophy or thinking towards health care is rather disturbing, to me anyway, in terms of we are all there and we all should have the same goal of, how do we service the people most effectively? Yet there seems to be a sense that: "I am in competition. If I can get the health council to approve that, that's great for us and our hospital." Would you care to comment?

**Mr Birkness:** I would be glad to. You are absolutely right. Rationalization of services within communities is very much uppermost in everyone's minds involved in hospital services. We in Scarborough, as you know Gerry—you were very much involved in the thrust of this, getting the Scarborough co-ordinating committee working to deal with rationalization of services.

**Mr Phillips:** That is right.

**Mr Birkness:** Some areas have done this very well. Hamilton has done an excellent job of creating a rationalization of services. Each community needs to have a co-ordinating committee of those hospitals. In your instance, the three hospitals that serve your community should be sitting down on a regular basis to discuss certainly any new services that are to be brought in, who should provide those services and how they would best be delivered.

**Mr Sutherland:** Can you give me a sense of how province-wide that is? Is that going on right now from your assessment?



**Mr Birkness:** To my best knowledge I believe there is a lot more of this going on. I do not know that we have any specific data, do we?

**Mr Cunningham:** I would respond to this by touching on one part of the subject. We are on record with the Ministry of Health, with the previous minister, and again speaking briefly to the new minister, with the bureaucracy as saying that we the association believe that we have not had adequate planning at the provincial level for an overall plan.

We applaud what the Premier's Council has said in the last two or three years, where it has come out with statements that we should be looking at less institutionalization, that we should be doing many things, that we should be setting health goals. What we have said to the Ministry of Health is that we believe the institutions are well managed, delivering good care, doing many good things, but that there is the lack of an overall provincial plan. We have had, at least from the bureaucracy, some agreement and some expectation that the association, with the ministry and the district health councils, collectively could do a better job of provincial planning, and we are ready to do our part.

**Mr Birkness:** On the question of competition among hospitals, we have been doing a lot of work at the OHA in providing information to trustees, education to trustees, to get them to understand that there is more to health care and hospital care than just their own hospitals, and a real need to understand what is happening in their community. As to this feeling of competition among hospitals, I think you will find less of that today than you might have found a few years ago. I know even in our own hospital board that seems to be disappearing and we are thinking of ourselves more as a community and working together.

**Mr B. Ward:** I think you touched on my question to some degree. We had a presentation from the Ontario Public Health Association which in essence recommended that our government freeze funding to the institutional type, which is hospitals, and that the greater concentration of dollars be put into the community-based health system or health care. The feeling I get is that may be a proper direction to head into, but that we are not really sure yet, and that until we are sure, let's continue to fund the hospital system so that we have the best institutions and health care available from that aspect, and begin the exploration of community-based health so that we can have a handle on what are the long-term costs, the long-term standards.

It is not a concept that you reject; it is just that you feel it is perhaps a little bit early for that type of funding where we freeze the hospital association and its allocation. You do not disagree with that concept; it is just that it is premature. Is that a fair statement?

**Mr Birkness:** Yes, it is a reasonably correct statement. What I am saying is that basically we agree that with the idea to move as much health care as possible into the community, into the homes, to get people into proper settings for the kind of care they need, the other side of that coin is that we are asking, what is the point of developing another group, another organization, and funding that to

provide this service when your own community hospitals are in a position to develop that and to work together with the ministry to develop that kind of service?

We agree that it should be done. It is just the methodology which is the thing we challenge. We also are saying, "Let's not rush into it blindly. Let's be cautious and step carefully into this whole idea and make sure that what we are doing is providing a better, well-thought-out service and not just"—as the speaker before us suggested—"throwing money at something that may not give you anything more effective."

**Mr B. Ward:** It is the position of the OHA, the upper echelon, that hospitals should work together in a co-operative fashion so that there is no duplication of services, that we are getting the most efficient use of our tax dollars when it comes to the health care that is utilized through the hospital system. Are you fairly confident that philosophy has filtered down to the hospitals? To be honest, Brantford has two hospitals, Brant county has one, and the perception I had—I was on the Brantford General Hospital board for a year—was that those turf wars were still continuing to a degree. I am just wondering what avenues the OHA has taken to ensure that this concept of mutual co-operation is filtering down to the administrators and to the various boards that run the hospitals. Can you comment on that.

**Mr Birkness:** First of all, there has been a lot of education about the delivery of health care services. As I spoke about, we have developed five videos for trustees teaching them what their responsibilities are in terms of the delivery of services within the hospital and emphasizing these very things. There is no longer any room, if there ever was, for waste within hospitals. The predecessor government made that very clear to hospitals, that where there was any potential waste, any fat within the organization that was going to be removed. It was simply removed by reducing their funding, as you well know.

The hospitals have had to operate their businesses; hospitals are a business; I should emphasize that; they may be a not-for-profit business, but they are very much a business—as efficiently as they possibly can. Any waste that was in hospitals, any fat that was in their budgets, has been removed. Those things have disappeared. Hospitals are operating efficiently and they have to operate smarter, and the only way they can operate more efficiently and smarter is to co-operate with one another. So I think you will find there is a great deal more co-operation among hospitals; there is a better understanding on the part of trustees and there is a better understanding by hospital administrators of what needs to be done.

1500

**Mr Sterling:** I was looking at page 4 of the appendix to your brief. You show 49,832 hospital beds in Ontario. How many of those are in chronic care institutions, or are they all acute care?

**Mr Cunningham:** Twelve thousand is the closest answer we have.

**Mr Sterling:** So if we take 12,000 off that, we end with about 37,000 or 38,000 acute care hospital beds.



ose 37,000 or 38,000, how many actually have chronic re patients in them?

**Mr Birkness:** Do we have any statistics?

**Mr Cunningham:** Of that 12,000, approximately 000 are in what we would call freestanding chronic care ospitals. Those are about 20 institutions in this province hich are long-term care, chronic hospitals. The other ap-roximately 6,000 would be in chronic care wings of acute re hospitals. It is pretty much an accepted fact in Canada d in most western jurisdictions that if we did an instant apshot at any one moment, if we looked at who is in hat bed, we sometimes find people in inappropriate beds. hat is, a frail person may have entered an acute care ospital for an acute episode and should be there; however, ecause there is no immediate availability of another ronic bed and they are unable to be looked after at home, ey are in the wrong place at the wrong time. They are not etting the rehabilitation or the best level of chronic care ecause they are in the inappropriate bed.

Quebec did a study only two years ago and said that oward of 20% of its patients were in the wrong bed at the rong time. They questioned us closely here in Ontario, hat was our figure. We did not have up-to-date figures, ut it is generally accepted wisdom that 10% to 15% of atients may be in the wrong and inappropriate beds. It is nfortunate.

I would say that hospitals have done their best to ad-ress that problem by having people who are specifically orking within the community to work at placement o-ordination to get people in the right beds. I think it is better oday than it was five years ago, but I would still have to ke an educated guess and say that upwards of 10% are robably in the wrong bed at any time.

**Mr Sterling:** The number of acute care beds seems to e a constant problem, particularly in terms of people anting to get elective surgery, etc. Can you provide me ith an educated guess of the number of acute care beds hat have been available for the public in Ontario for the ast five or 10 years? Do you have any statistics like that?

**Mr Birkness:** Just a clarification of the question. You re trying to determine how many beds have been closed ver the past five years?

**Mr Sterling:** I am having a hard time getting a handle n what the problem is in terms of acute care beds in ospitals.

**Mr Birkness:** Why people cannot get beds when they equire them?

**Mr Sterling:** That is right. The population is increas-ig. In the area I represent it is increasing rapidly, but the umber of acute care beds is not increasing rapidly.

**Mr Cunningham:** I can only give a partial answer. I an start by talking about this matter of bed closures. The ospitals, in my view, use good management and attempt niversally to use the dollars to the best advantage. This is uttressed by the voluntary boards and the modern admin-istration we have.

There are times when it is valuable to close beds. More rticularly, in our Canadian way of life it is quite true that

in the summertime most of us want vacation if we can have it, and there are many people who do not want elec-tive surgery in the summer. If a hospital can truly find a time when it can close some of its operating rooms and close certain wings, it makes good sense; if medical staff want to take a vacation. That is good management. Cer-tainly the same thing happens at Christmastime. Over the festive season it is absolutely true that as many people want to be home as possible. It is good management in saving dollars and closing beds, so we do have normal, good management practice of closing beds at some times.

Where we start to get confused is this: Sometimes, because of economic reasons, we find that hospitals close a wing, say, at Christmas or in the summer, and because their budget is short they try to keep that wing closed as long as they can. We get a great deal of fluctuation. The Ontario Hospital Association is a voluntary association. We have made a determination that the beds fluctuate so much that it is a senseless game for us to keep track of how many are open or closed at any one moment. That is why we tend to waffle a little on our figures.

The Hospital Council of Metropolitan Toronto, by con-trast, has the large Metro population to care for, and it does have co-ordination of the beds within Metro and does keep track of how many beds are closing at any one moment. We get varying figures, but the Metro figures have shown that due to economic reasons sometimes it runs about 3,000 beds closed within Metro at any one time. Some of that is good, because it is responding to the seasonal fluc-tuation; some of it is bad because they have had to close for economic reasons, and that backs up the surgery.

I cannot give you a very fixed answer, but we do try to translate, we try to ask our members what the lack of funding does to them. To the best of our knowledge, last year, the year which ended 31 March 1990, 800 beds seemed to have been closed permanently and taken out of the system.

**Mr Sterling:** Again looking at your figures, you show the average inpatients is 43,600 patients a day. If I take that as a fraction of the number of beds you have in the prov-ince, including chronic care beds, you are pressing 90%. It seems to me that while we hear all these arguments for deinstitutionalization, clinics, etc., our hospitals have tre-mendous pressure on them for acute care patients. The last government in 1986, I believe, went out and made all kinds of promises about a whole bunch of new acute care beds that were going to be built in this province and then reneged on that promise, I believe on the basis that these clinics were going to draw away the need for acute care. I just do not see that happening, either in your figures for 1988-89 or in my experience. Should we build more acute care beds in this province right now?

**Mr Cunningham:** I am going to go back to what I said earlier, that I would be dishonest if I tried to answer that. I can say that our hospitals in this province are giving good value for dollar and they are giving good manage-ment, but I do believe we lack an overall provincial plan-ning system. Again, the association has said to the Ministry of Health and we will say to the public that we



are willing to take part in a better planning system. That might help resolve that question. I think we lack provincial planning.

**Mr Sterling:** I do not care if you lack provincial planning. I represent an area that is served by the Queensway-Carleton Hospital. Some of my constituents, when they go there in emergencies, have to be put in the hall and all that kind of thing. Queensway-Carleton was promised 100 acute care beds by the last government. The argument against giving them those beds was that they were going to create clinics that would draw away from it, but that is not happening. The patient goes to the clinic; if it is a difficult case it gets shifted to the hospital anyway. Why bother with the damned clinic if all they are doing is creating another intermediate service, which is costly, and shoving it on to the hospital anyway?

**Mr Birkness:** Clearly, to make up for the loss of many of the acute care beds, a lot of out-surgery is being developed, and trying to move patients through the system by changing to this community care type of service. Obviously, when you can go to certain hospitals and find on a continuous basis, day after day, that people are being left in hallways because there are no beds to put them, where you find that people are on waiting lists and those waiting lists are getting longer for certain types of surgery, obviously there is a shortage of hospital beds; there may be a shortage of operating rooms and medical and nursing services for those particular needs.

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We do feel there is no room to cut any more acute care beds. We already have the problem with those that have been cut, those which, as you say, were promised and never brought on stream. It cannot continue. That is the message I have been bringing to the minister, to the Treasurer, the message I bring to you today, that we may not have a problem tomorrow, but I can assure you that we will have a problem in the very short term, if it is not in the very near term, the next six months or year. If we continue to cut beds, with our aging population we know very well that we are going to have a real problem in hospitals, because in spite of moving services out into the community there is going to be a definite need for additional acute care beds in our hospitals.

**Mrs Sullivan:** By way of a preamble, this morning when the Minister of Health and deputy minister were in front of the committee one of the questions put to them related to increasing in the next couple of years the health budget to allow for transition costs from an institutionalized system into more community-based care. The deputy was perhaps very perspicacious in not responding directly, but he certainly left us with the impression that while there probably would not be that kind of interim funding request, what there would be within the budget request would be a larger portion directed to increases which would stimulate interest in change.

I look at my own community and see things which have occurred there. It is served by three hospitals: Oakville, Milton and Burlington. It is a growing area. We have just received allocations and almost have shovels in the

ground for additions to two of those hospitals. Additionally, all three hospitals are very involved in the transit and will be involved in the delivery of services in a different community-based situation. In the next phase of development they will not be looking at new hospital space. They may be looking at satellite, day-surgery operations, along with other kinds of therapeutic care and counselling and whatever.

As I see that and as I look at your page 13 talking about additional costs which have not been quantified and this will affect, I assume, this year's budget. These are things you do not know about in terms of your analysis of what will be required this year in your operations. What I do not see is an indication of the pressures that will be on the hospitals in terms of participation in a community health care system. I do not know if it is different in Metro Toronto, but in a community like mine, where the hospitals are very much involved in being deliverers of a community-based health system, I think, for instance, of nurses who may have to travel into people's homes. Where are those travel fees? What other aspects? I just do not see it there. I know it is causing a pressure in my community and I am wondering why it is not there.

**Mr Birkness:** Our global budget here does not take into account the breakdown of each individual hospital. Each hospital, of course, would present its own budget. You are telling me what the overall needs are of hospitals. You have within that, under appendix B on page 9, under "New and Expanded Programs," \$107.3 million, representing 1.65% of our needs. That amount will be allocated to the new projects and a new health care delivery service which you speak.

**Mrs Sullivan:** So it is in there. Do you want to speak at all about these unquantified costs that are likely to be coming up within the next budget year?

**Mr Birkness:** Are you talking about the impact of GST and workers' compensation and so on? What more can we say about that, Gordon?

**Mr Cunningham:** I think it is just to alert that sometimes there are other costs imposed upon hospitals and they will have to accept them if they come. We cannot pass on by taxing the local community, we cannot pass on by charging more. We are simply alerting the committee to the fact that sometimes we have extra costs imposed.

**Mrs Sullivan:** Some of those changes in work-related comp costs will certainly be in-year in the next fiscal year.

**Mr Birkness:** Yes. That is why we addressed the issue. We know these are going to impact on the global budget of hospitals so that hospitals are going to have fewer dollars to address the needs of patients, patient care.

**The Chair:** I would like to thank you for coming and make your presentation this afternoon.

INCOME MAINTENANCE FOR THE HANDICAPPED  
CO-ORDINATING GROUP

**The Chair:** Our next presentation is from the Income Maintenance for the Handicapped Co-ordinating Group. Christopher Watts, chair.



**Mr Watts:** My name is Kit Watts. I am the chair of the Home Maintenance for the Handicapped Co-ordinating Group. As some of you may know, we have presented to the standing committee before; this is our third year in a row.

Page 1 of our brief outlines our activities. We are a group of and for persons with disabilities, formed in 1978. Since then we have formulated strong positions on a variety of issues, most recently dealing particularly with the report of the Social Assistance Review Committee, Transitions, to try to maintain the momentum that was generated when that report was released. I would like to thank all of you for this opportunity to be here to address our concerns.

I would like now to introduce the other three people here today: Harry Beatty, legal counsel for our group; John Southern, who also was an original member of SARC, as some of you may recall; and Vera Malec, a member of our group and also the executive director of Views for the Visually Handicapped, which is a consumer group of parents of children who are blind or visually impaired.

We would like to finish within the half-hour time frame. We understand that a gentleman in the next group is a train to catch, so we would like to present as thoroughly and as quickly as we can.

**Mr Beatty:** I will address part 2 of our submission, which is the argument for continuing the social assistance reform begun by the Transitions process. Table 1 on page 2 of our brief indicates the growth over the past several years of the number of disabled persons on family benefits assistance, also known as Gains-D, guaranteed annual income system for the disabled. It shows that from 1982 to 1990 there has been a relatively steady growth of about 1% each year, and now there are slightly over 100,000 disabled individuals receiving family benefits as "permanently unemployable," to use the label in the legislation, which we do not like. Almost 50% have been identified as having primarily a psychiatric or developmental disability.

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We are naturally concerned, given the escalating social assistance costs in Ontario, that there will be pressure on the government, which has shown a strong commitment to social assistance, to slow down or perhaps even stop social assistance reform. What we want to argue is that social assistance reform, besides being better for people, is a more soundly based economic policy.

On page 3, we start to list some of the main points.

The first is competitive employment. One solution, of course, to the growing numbers of people dependent on Gains-D, which provides a basic income of less than \$10,000 a year in most cases, is competitive employment. It is really the time to make some commitment to the employment of disabled people in this province.

We know the government is moving ahead with employment equity. We hope it will be effective. We hope we will start to see some effective enforcement of human rights legislation. But other supports are necessary as well.

Vocational rehabilitation services for people with disabilities are very underfunded. There are tremendous waiting periods. It often takes periods of up to a year even to

get an initial appointment for service. You can imagine how well a small employer who may be ready to offer a disabled person a job is going to react to the news that there will be no involvement from vocational rehabilitation for a year.

I just point out, in the last paragraph under heading 1, the financial importance of vocational rehabilitation. If we say that there is a public expenditure of about \$10,000 a year on each person with a disability under Gains-D, counting both the benefit and extra health costs and perhaps supported housing, a \$20,000 rehabilitation and training program would, in effect, pay for itself in two years if it meant the person could get a job and be competitively employed. That is an oversimplification, but it may put it in some perspective.

There are American studies anyway that show that dollars spent on effective rehabilitation are cost-effective in ratios of 5 to 1, 10 to 1 or even better. If you have a good rehabilitation program which gets especially the younger disabled person out in an integrated way into the workplace, that makes a lot more sense than paying for a lifetime of dependency. It makes a lot more sense for the individual as well.

Second, we want to address the overlap between Gains-D, which is social assistance and other disability compensation systems.

Table 3 on page 17 of our report shows that almost 15,000 Gains-D recipients also are getting benefits from other programs. One of the things that we want to look at of course is, are these other programs providing adequate benefits? Are they treating people fairly, or is the real reason that we have the escalating numbers of disabled people on social assistance, at least in part, that the other contributory and premium-based programs that they are paying into, that their employers are paying into, are not providing adequate compensation?

They start by noting that of the some 100,000 disabled persons getting Gains-D in Ontario, almost an eighth, 12,500, also have CPP disability pensions. These are people who have worked and contributed sufficiently to qualify for CPP disability. Yet you can see that they are getting an average payment from CPP of \$501. That is all they are getting. You can add to that other people who have worked and contributed to CPP and, because of the technical and unfair eligibility rules, do not get anything and wind up on social assistance. This is the kind of thing that we hope the government will examine.

Another point about CPP disability is that there is no provision in their legislation for rehabilitation or any kind of earnings exemption. Their policy is still that if you get back to work, even on a temporary basis and maybe even if you go for training, they are going to take your CPP disability pension away. You can imagine the effect that has on CPP disability pensioners who may be considering a return to work. What if they try to go back to work and cannot do it after all? Their pension may be gone.

You may also notice almost 2,000 injured workers getting both workers' compensation at an average of \$300 a month and being so poor that they qualify under both the



income and asset tests for family benefits. It really would be instructive to review these cases.

Workers' compensation is often portrayed as a very rich system. There is no doubt that the initial level of benefits is much higher. Temporary benefits are much higher than a government general revenue, social assistance program like Gains-D offers. But once people had been in the system for several years, at least under the old system, people were not getting those high benefits; they were getting 10% and 15% pensions. I think any MPP would be familiar with that from his own office.

We really think that the relationships between these different programs should be looked at to see if some of these contributory plans, and I would include private long-term disability insurance as well, are in fact undercompensating people or in some cases denying them benefits altogether.

The next area is special-needs funding and John will address that.

**Mr Southern:** I would like to thank the committee for letting us appear before you once again. I know last year I joked about becoming an honorary member of the committee. Sometimes I think I should.

I just want to say that you must receive a lot of briefs and presentations. You could become blasé about them maybe, whatever, but reading Harry's brief today that he prepared for our group, it held my attention. I have been involved in social assistance issues for 11 or 12 years now and I still found it informative. I suggest that you read it from page 1 to the end. It really is good.

Talking about special needs and supplementary aids and whatever, there are often times when certain items that disabled people need are not available under family benefits or other plans and they have to go to the local municipalities to get this assistance, bandages or some certain kinds of equipment that are not covered by the assistive devices programs or other programs.

In these recessionary times, some of the municipalities are cutting back and some of them are so small they cannot afford to provide this assistance. As I found out when I was a part of the Social Assistance Review Committee, there are some municipalities that are very rich that do not want to provide this assistance as well, which shocked me to the core. Therefore, we recommend that supplementary aid be transferred to the province and that people should have a right to the things they need to lead a dignified life.

I guess one reason I got involved in social assistance issues is that when I first came to Canada, I saw the plight of disabled people in this country and how poor they were. There has been some improvement but not a lot. A lot of disabled people still remain living under the poverty line. I can speak somewhat from personal experience in this area.

I would really like to see the rates of social assistance raised. This government did raise the social assistance levels of people on Gains-D by 7% and also we really would like to thank the government for raising the shelter costs, but we believe another raise in the level of social assistance is necessary this year. They are certainly behind the eight ball, as Harry pointed out. The average person on social assistance is only receiving around \$10,000. There

are too many people living on that kind of income and it is high on impossible.

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Also, I would really like to see an improvement to the assistive devices program. As a start, we would like to see the age limits in the assistive devices program taken out of it and have it apply to people of all ages. That was proposed in 1989 by the previous government and that has not been realized yet. Of course, after that is achieved, we would certainly like the 25% that people have to pay under the assistive devices program, for those who cannot afford it, there should be some way that can be covered. A lot of people spend so much time trying to acquire this funding, it is ridiculous.

Also, talking about the assistive devices program, the supports to employment program and all these other programs, it is all very well to have these kinds of programs and to encourage people to join the workforce again. The person who has just recently started to work with myself, PUSH would like to leave family benefits altogether and become independent, but the person has extreme costs. They need about \$5,000 a year just to maintain the wheelchair.

Under the assistive devices program, for example, some pairs are not covered. Where else does this person have to go to get this kind of assistance? Disabled people have been sort of reliant on charities for too long. Most disabled people I talk to are not willing to go out and beg any more. "We've got our rights and we want a dignified way of living now."

Also, we would like to see obviously extra health costs covered, certainly for the working poor. They should have an opportunity to avail themselves of the health plan. Again, when people on family benefits want to leave the system and go into the workforce, some disabled people have extraordinarily high health costs and there is just no help for them. Sometimes it does prevent them from leaving the program, and in fact sometimes does prevent them from taking employment. I can think of at least five cases myself, people I know. I think this really needs to be looked at and studied a lot closer.

I will pass it over to whoever is next on the list.

[Failure of sound system]

**Ms Malec:** —most families cannot work their way through. There is no one generally who can advise them how to co-ordinate the effort. Many families are not given the opportunity to access the programs that are available to them, but they just do not know how to plug into the system properly.

Within that report, it suggests integration of the services of all ministries with programs for children. Some of that committee's goals were to make the wellbeing of children and the defence of their entitlements society's priority, create an equitable economic base for families and communities so that they can provide the entitlements for children, make government a leading partner in the creation of a public agenda for children and provide an integrated framework of services that ensure children's entitlements.



The Minister of Community and Social Services told the Ontario Legislature that these goals are supported by the new government. That is Mrs Akande. She was a member of that committee prior to being elected.

For the infant and preschool population, there is a serious need for immediate and ongoing intervention from early development programs. Again, there are some services. They are scattered. They are regional; accessible here, not accessible there. Again, no co-ordination, and this begins right from diagnosis. In many cases the diagnosed child is handed back to the family without any support. It is specifically true in the cases of sensory impairments—hearing and vision losses. It is true in most disabilities, but especially there.

What we are hearing from teachers in the school system is that particularly sensory-deprived children are coming into the school system at anywhere between the ages of four and six with no preschool intervention, totally unprepared for an education, and in most cases they will never catch up. So we are losing those children.

Within our brief we have talked about the funding increases for the special services at home program. I know that at the presentation after ours is the Provincial Coalition on Special Services at Home and I think they will probably give you all the information. I just would like to say enough that the funding increases definitely need to be made in this program. Some \$10 million had been assigned to the program over the next three years—totally inadequate. It must be put in place within the 1991-92 fiscal year to have enough serious impact on that.

That is pretty well all I wanted to say in regard to the children's needs.

**Mr Watts:** Any questions?

**Mr Phillips:** I appreciate the presentation very much. I look back on the election and I think the previous government felt it was moving forward on the agenda. I think many groups, like yours, did not feel we were moving fast enough. I think the new government was elected on a platform of accelerating the development. I guess the role that we play—what we will do, or what I will attempt to do—is to hold them accountable for doing it, because I think in both *An Agenda for People* and the throne speech there were commitments made to your group to continue the progress. I have a lot of empathy with the needs of our community and with the need to continue that agenda.

All I really wanted to say was I think in both the throne speech, as I read it, and *An Agenda for People*, there is a commitment to do the things that you say are in the brief. In opposition, I guess the role of all of us is to make sure that that in fact happens, to the best of our ability.

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**Mr Watts:** We recently presented to Allan Roscovitch's Advisory Group on New Social Assistance legislation. That was the advisory group that was launched by the new minister, as you say. Mr Phillips, to accelerate the whole process of social assistance reform. In terms of the immediate needs, most particularly the rate of increases that are necessary, people on family benefits

experienced as of 1 January a rate increase and also an enhancement of the shelter subsidy. We suggested to the advisory group at that time that we look at a further 5% in the 1991-92 fiscal year, that is, over and above the regular 1 January rate increases, a 5% rate increase and 5% shelter subsidy over and above that. I thought we would just inform you of that to be consistent with the other group.

Are there other questions about some of the recommendations we have made?

**The Chair:** Seeing none, I would like to thank you for your presentation and your brief.

#### PROVINCIAL COALITION ON SPECIAL SERVICES AT HOME

**The Chair:** Our next presentation is the Provincial Coalition on Special Services at Home.

**Mr Cartan:** My name is Doug Cartan. I am chairperson of the Ontario Association for Community Living's task force on special services at home. I am also a co-chairperson of the provincial coalition on this particular program funded by the Ministry of Community and Social Services.

The coalition is made up of virtually all major disability organizations in the province. I want to introduce to you again today Christopher "Kit" Watts, from the Income Maintenance for the Handicapped Co-ordinating Group; and Bob Johnston, who is the chairperson for the Coalition for Family Support Services.

I want to chair this section for our group and, first, say to you that we are putting a microscope on one of the flagship programs in Comsoc's portfolio. In doing that, I want to stress the fact that the message we bring to you today is endorsed by virtually every major disability organization in the province. It is a very serious program.

I would like to turn it over to Kit Watts for some introductory remarks, and then to Bob Johnston.

**Mr Watts:** My task is to refer you to pages 1 and 2 of the brief, which basically gives the background of the SSAH, special services at home program. The program was initiated by MCSS in 1982-83 to respond to families whose children had a developmental disability and were under the age of 19. Families were able to apply to the ministry directly for an amount of money that would help them provide individually tailored services to meet their child's needs.

There are three main characteristics of this program which made it a very beneficial program for families in these circumstances and, I would like to add, perhaps may act in future years as a prototype for the government to more seriously consider a user control approach to funding.

First, there was flexibility. The families were able to access the program not based on specific criteria which may have excluded them; rather, the criteria were tailored to meet the individual family's needs, keeping in mind that individuals with disabilities living at home with their families have a wide variety of needs and therefore quite individualized requirements.

Also, the program provided portability, in that rather than the person having to live in a certain location to access



the program, the program could follow him wherever he was in the province.

The families had choice and control over the services they were requesting and receiving and they also had the control or the option of controlling the funds provided to them directly.

SSAH is also supported by users because it enhances the security of the whole family. It allows the child or children in question to remain at home, avoids institutionalization and provides a normal access to their community.

But by 1988, there were about 6,000 children making use of special services at home, for a total of \$14 million in support. There started to be problems associated with the inadequate funding of the program. As is the case with many programs we introduce, we just have no idea how the demand will increase. Sure enough, this is what happened. It became much more popular than anyone had anticipated, and as a result there has been a shortfall of funds over the past several years.

In September 1990, just prior to that, the previous minister, Charles Beer, announced an expansion of the program to include two other quite large target groups, children who have physical disabilities and adults who have developmental disability. To offset the increased costs that these many more thousands of potential users would need, he allocated an additional \$10 million, as was mentioned by Vera Malec in the previous presentation, to be added on an annualized basis over the next three fiscal years. By fiscal 1992-93, there would therefore be approximately \$24 million allocated to the program.

I would like to turn it over to Bob. He will explain further what our expectations are, based on the inadequacy of the present funding.

**Mr Johnston:** Thank you for allowing us to speak to you today. I would like, before I review the short portion I have, to emphasize that this is indeed a coalition of a variety of organizations, which are listed on the final two pages of your document. The emphasis I would like to make is that we are coming together for one of the first times as a true provincial coalition, representing different segments of the society which is called "disabled." That would be, in this case, developmental disabilities and physical disabilities. We have come together in the principle of supporting one another rather than attempting to grab what we can for our segment, so all through this whole process we have emphasized with the ministry people we have worked with, and we do so today emphasize, that we want this program to work for all of us and not for some of us.

As it says here, special services at home is a flagship program in the ministry's plan for family support and the effort to curtail institutionalization. Indeed, this program is in many ways a response to the philosophy of deinstitutionalization.

Prior to the announced expansion and extension effective September 1990, the program, as has been said, was seriously compromised as a result of the demand for funds outstripping the availability. The problems were evidenced by things such as: parents in some regions of this province experiencing direct cutbacks to their SSAH agreement;

families being asked to cost-share in some areas. Also funding for some uses of the program, for example, parent relief, is being either cut off or restricted if there is a base funded agency in the community. Families who do not use all of their approved hours of support in one contract period are experiencing a reduction in approval during the next contract period, which may imply to you some usage in a period when it may not be necessary to the family through fear of losing it in the future when it is necessary. Waiting lists are being established in several areas of the province and new applications are not being considered. Equipment for children and transportation costs for workers funded under SSAH would no longer be funded.

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In addition, the recently announced expansion and extension would allow access to the program by an additional 12,000 families in those two new groups we have mentioned over and above the 6,000 served prior to September 1990, while adding just \$10 million in new annualized dollars to the current \$14 million. The \$10-million increase will not be fully realized until fiscal 1992-93. I do not think it takes much in the way of mathematical thought to realize that if we go from 6,000 to potential 18,000 people and we do not even double the money, something is going to break down. Pressures are being compounded as a result.

The current situation is that applicants for assistance from the newly eligible groups are being turned down, in particular the newly eligible groups, including, for example, adults with a developmental disability. In the case of families where the parents may be in their 60s or 70s and the child, who is indeed an adult, is in his or her 40s, applications are not being accepted in many cases for this newly eligible group or supposedly newly eligible group.

Workers funded under the SSAH program are the lowest-paid human service workers in this province, lagging 60% behind institutional workers. The emphasis may be on deinstitutionalization, but there is no recognition of that in the compensation for the workers in that area.

Family contracts are not approved for more than 12 months at a time, resulting in great insecurity for the families as they approach the end of their contract, just as each of us would be very concerned if election day were rolling around or if we were under a contract at work and did not know until the last few days or indeed until after the expiration date whether we were going to be renewed. It causes insecurity.

#### Recommendations:

1. Commit the entire \$10 million that had previously been allocated to take effect by fiscal 1992-1993, and move it in 1991-92 to deal with the current program pressures.

2. Commit to SSAH as a primary home support option for families rather than as a program of last resort, as it seems to be implemented in this province now. It really is a program of last resort.

3. Commit an additional \$30 million annualized, which would then total \$54 million annualized, by fiscal 1993-94 to support the new and existing groups of eligible individuals and families.

Perhaps we should ask if there are some questions.



**Mr Phillips:** I just want to get it straight. You are in many groups. I guess each group might come with another one, but this is one that transcends all.

**Mr Johnston:** Across the board.

**Mr Phillips:** I do agree with the point you made earlier that that concept is important, of essentially the consumer or whatever you want to call them, the individuals, having control over their services as opposed to what often happens with government, which goes the other way. You make a good point, because many of our community-based services could think about that model for home care and things like that.

What do you feel the ultimate demand for the service will be? Is that approximately \$50 million in today's dollars on an annualized basis where you think the total demand will be?

**Mr Watts:** Back in the spring, Richard Allen, who was then the opposition critic for the Ministry of Community and Social Services and, of course, is now the Minister of Colleges and Universities and Skills Development, at that time mentioned in a press conference organized on behalf of this program that, based on the existing figures, in 1990-91 dollars, if all the potential users of the program were to approach the ministry for funding the need would be in the area of \$120 million to \$130 million. The program was introduced almost 10 years ago, and of course was applauded at that time for its many forward-looking features, but we are lagging behind badly now. That is basically what the demands would be.

It would be very interesting, for example, to see what could happen if all of a sudden that money were freed up. That would help us a great deal with our social research, to see just who does come forward, and also compare that to the enormous number of dollars spent institutionalizing young people, developmentally handicapped adults and so on, who could viably be remaining at home with their families.

**Mr Phillips:** Give me the number; it would be helpful. I think you make a good point about the difference in cost if you were institutionalized. How much per individual, roughly, does this program cost per year?

**Mr Cartan:** Right now, with about 6,000 families accessing \$14 million, you are in the \$2,500 range. A group home bed in my community is \$150 a day.

I also want to add to what Kit said. The Easter Seal Society has given us some pretty clear statistics about the number of physically handicapped children it can pinpoint right now. That is an additional 6,000 children it figures will have access. For the adults with developmental handicaps, there is no clear research done on that but looking at information from StatsCan and cross-referencing that with the health and activity limitation study, we have the most conservative estimate of another 6,000 families who have sons and daughters who are adults with developmental handicaps living at home. So this is a conservative estimate for this program.

**Mr Phillips:** About \$2,500 per individual, is that right, per year?

**Mr Cartan:** Per family.

**The Chair:** Seeing no further questions, I would like to thank you for your presentation.

#### ONTARIO FEDERATION OF STUDENTS

**The Chair:** The next presentation is the Ontario Federation of Students; Tim Jackson, chairperson, Greg Elmer, communications director.

**Mr Jackson:** Our apologies for not having the brief in advance. We received short notice of the notice to present and were away last week. La Fédération des étudiant(e)s de l'Ontario représente environ 240 000 étudiants et étudiantes dans la province.

I would like to go through the brief very quickly and just highlight and expand on some of the areas that are mentioned. About three years ago the federation unveiled a document called *Cut to the Bone*, which outlined underfunding problems that existed in the post-secondary system in Ontario. The report got a fair bit of attention but very little action from the government. The report talked about deteriorating laboratory equipment, increased classroom sizes, increases in the hiring of part-time instructors as opposed to full-time professors.

The federation has always believed in a high-quality, fully accessible post-secondary system. We reaffirm our commitment to work towards a strong, truly publicly funded education system, something which the government outlined in its throne speech when it talked about strong, publicly funded institutions.

Over the past few years the situation has gotten worse and worse. The previous government introduced programs such as the employer health tax and pay equity legislation, legislation which in and of itself may be very good, but provided no additional funding to universities and colleges to make up the increased expenditures. Universities and colleges in the province, their revenues are fully controlled by the government, both through operating grants and tuition fees. Therefore, there was no way for the institutions to increase the costs.

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The previous government also had a habit of introducing what it would call accessibility funding. It would tell the universities and colleges that they could take in X number of new students. The universities and colleges would receive funding for those students in the first year. Unfortunately, the universities have to take those students through years two, three and four and subsequent funding for those years was not forthcoming. Therefore, we are in a situation right now where operating grants per student over the past 10 years have decreased significantly. In real terms the operating grants per student at universities in this province are almost \$2,000 less than they were in 1978, which means the universities, as we said earlier, obviously have had to increase class sizes and increase the number of professors that are not on tenure, ie, part-time lecturers. In fact, it leads to a lower-quality education.

We do recognize that part of the blame for this rests with the federal government through its cuts in transfer payments, but we also believe that the province has to recognize that what Michael Wilson and Brian Mulroney are doing is very simply transferring the tax burden to the



provinces. Transfer payments have gone down and will probably continue to go down and therefore the province is going to have to pick up its slack.

The way the provincial tax system works in this province, like most except for Quebec, is that the provincial rate is simply a factor of the federal rate. So, through Mr Wilson's tax reform, as the federal tax system got more and more regressive, de facto the Ontario tax system has become more and more regressive. We think that when the Fair Tax Commission starts to meet that is something that it is going to have to address to make the tax system in the province more equitable.

As an immediate commitment, the federation, along with the faculty, staff, alumni and administrations of universities, has asked the Treasurer to commit to contributing \$125 million per year for two years. That would take Ontario to the midpoint in the country in terms of per-student funding. Ontario currently ranks nine out of 10 provinces in per-student funding. We believe that that midpoint by midterm is something this government should commit itself to, simply as a very short-term solution to try to stop the crisis that currently exists.

The Ontario Confederation of University Faculty Associations, when it presents, will speak a great deal about the professors who are increasing in the province. We share its concerns and support its position that there needs to be an additional 1,500 tenure track positions created in the province.

We would also emphasize, though, that this is a perfect opportunity for the government to introduce some sort of employment equity program. At the same time as increasing those positions, we would support some sort of affirmative action to increase the number of women who teach in faculties such as science and engineering and increase the numbers of visible minorities and other underrepresented groups. So in fact, the government could attack two problems at the same time.

We could not come today and not talk about user fees for post-secondary education. Over the past 10 years there has been a significant shift in the burden that students have borne. What were traditionally funded services out of a university's operating grant, such as student space, have now been shifted to ancillary fees, where students are now having to pay for the construction of study space, of recreational space and are paying other fees that previously had been covered by operating grants.

The student assistance plan in the province is woefully inadequate. That has been acknowledged by government, staff, students, faculty and alumni. Everyone agrees that the system is inadequate. As provincial revenues have gone up, the amount of money that has gone into student assistance has not gone up by the same proportion. What we would like to see is some sort of commitment from the government to let us know whether it is willing to revamp the entire student aid system or simply willing to tinker with the system that currently exists.

If tinkering is the way that the government wishes to go, simple things such as the living allowance that students are expected to live on under the student assistance plan have failed to keep pace with inflation. The living allowance

currently sits at \$121 a week. We estimate that the actual cost to the student living away from home is closer to \$200 a week. If the living allowance had at least kept pace with inflation, it would sit at \$175 a week. So it has not even kept up with inflation.

Several years ago, we asked the then Minister of Colleges and Universities if she would be willing to try to live on the living allowance for one month during the summer and she said she would not. We quite frankly believe that is because she believed that you simply could not. No one would challenge anyone to live on \$121 a week, especially in a place like downtown Toronto. That living allowance covers everything from transportation to meals, to rent, to electricity, to transportation.

Compensation must also be made for the 7% goods and services tax which now applies to textbooks.

Income-contingent repayment plans have been suggested by people recently as a method of paying back student loans. We do not question for one minute that an income-contingent repayment plan would be better than the current Canada student loans program.

The problem is that anyone who proposes the contingent repayment plan does so at the same time as proposing significant increases in tuition. For that reason, we reject the plan.

In dealing with the Canada student and the Ontario student loan program, we would suggest that the government should look seriously at running the loans itself. Currently the loans are run through chartered banks in the province. The loans are 100% guaranteed by the province and by the federal government with a Canada student loan. It is very easy money and simple money for the banks. There is absolutely no risk and we would suggest that it would be better administered through the provincial government.

Who pays the price for post-secondary education? The OFS has always advocated a system without user fees. However, we have also advocated the position that we must repay society.

For the policy manual, we stand opposed to increases in tuition fees for education and we call for the progressive abolition of fees. We do recognize the obligation of the individual to reimburse society for the benefits accorded by higher education, and it is our belief that the most equitable method of meeting such an obligation would be a reformed system of taxation which would be borne by the student only after graduation and hence not pose an economic barrier to prospective low- and middle-income students.

What we are saying is, eliminate the tuition fees, free them in the short term, eliminate them in the long term. However, the question always comes up, "Well, where should the money come from?" The money should come from us, as students, and the money should come from the after graduation through a progressive income tax system.

We also believe that corporations are a beneficiary of the post-secondary system. If undergraduate teaching were to cease tomorrow, research and development would still have to continue and the costs would be borne by either corporations or by the government, and therefore we feel that through the corporate tax system there should be revenues raised towards post-secondary education also.



In conclusion, I guess the government is going to have to make a decision and that is that we are at a crisis point right now where universities are going to simply have to reduce the number of students they take in to provide any sort of quality education. This government is going to have to decide, does it want an education system that few can get into because there is not enough money, which means the course not only that students do not get an education but that jobs are lost through faculty and staff, or is the government willing to commit proper funding and full funding of the post-secondary system, which we believe in the short run would in fact cost them less money?

We believe that government was elected with a mandate and that mandate was not to pick and choose between options that have been presented to it since the election; the government was elected with a mandate to provide strong, publicly funded institutions. If we go back to the football analogy that the member for Brantford used at a rally we had, the Conservatives had the ball and they fumbled it. The Liberals had the ball and they fumbled it. Now we have the ball and we are going to take it for a touchdown.

The initial indications of the operating grant increase that will come next week are that in fact the NDP will not be taking it for a touchdown but will probably be tackled behind the line of scrimmage, and therefore we believe that it is imperative when the budget comes out that the NDP make up not only the lost yardage but that it does in fact take it for the first down and then a touchdown, because it is not going to happen next week. I think, as committee members you are going to have to do something when the budget comes out.

**Mr Sutherland:** It is a pleasure to see you here. I want to ask you a very frank question. I have been receiving the paper from Western, both the administration paper and the student newspaper, and am quite alarmed at some of the things I have certainly been seeing. The decline is going down there quickly. I know that Western traditionally is a better-off university than many of the other ones, and colleges, in the province.

My question to you is, realizing that we are in an immediate crisis; if you had to choose between one or two things, either zero tuition or making sure there is more money in the system overall, which one would you choose right now?

**Mr Jackson:** I guess when I ran for this office, Kimble got to grill me and it still continues.

We have always said that zero tuition is a goal of ours. We do not believe it can be obtained in the short term. Our short-term solution would be an immediate freeze in tuition fees and then some sort of plan. We have indicated our commitment to work with the minister and with the other groups to come up with a long-term plan to eliminate tuition fees.

We believe that in the very short term this government can amend the Ontario income tax system to make it more progressive than it is now, again coming back to the fact that it has become de facto more regressive as the Tories in

Ottawa have made theirs more regressive. With very little effect on the budget, you can freeze fees for this year and over the course of the next 12 months. We think we can come with a plan to eliminate fees and replace those revenues through both the personal and corporate income tax system.

**Mr Sutherland:** Could you just inform the committee as to what the percentage of university funding is now? Not percentage but the overall dollars of university funding now by tuition fees?

**Mr Jackson:** Tuition fees cover about \$440 million.

**Mr Sutherland:** Okay. The expectation would be, then—freeze them; all right.

**Mr Phillips:** I am looking for the touchdown, as I said to the previous group. I guess I am sensitive to these things because we were doing what we thought was best. I look back over the past five years and certainly operating grants and the capital grants for colleges and universities went up well in excess of inflation. Now, you have another government and it promised a touchdown. I guess all you can expect from us as opposition is to kind of cheer you on as you expect to get a touchdown. You are right that next week, if the grants do come out, it will be the first test of where on the field the left end is.

**Mr Jackson:** The biggest problem we had with the previous government was that an announcement would come out, grants have gone up by 7% one year, 8% the next year, which sounds wonderful, except that the government has said—

**Mr Phillips:** Nine per cent last year.

**Mr Jackson:** Eight and the additional at budget time.

**Mr Elmer:** It was more like 2%. That is why Kimble brought up a very good point at Western. They cut back in their budget by 2% across the board.

**Mr Jackson:** The problem is, that is fine to increase them by, whether we take 8% or 9%, but when the government has also said, "We want you to take in X number of new students on a per-student basis," last year's grants, when you took off that enrolment bulge, the employer health tax and the pay equity the actual increase was 2.5%, which was less than the rate of inflation.

I think that is the past and what has happened has happened. What we would like is a commitment from the new government, if it is going to increase spaces, that it fully fund those spaces through all four years. We will be working with you to make sure that happens.

**Mr Phillips:** I know those guys.

**Mr Jackson:** I will be working with you to make sure they do it.

**Mr Sutherland:** I wanted to ask about another specific area of OSAP. I have had several calls lately from my constituents concerned about how OSAP is working for part-time, and more specifically, mature students. I was wondering if OFS has done any research on that or developed any policy on what specific reforms should be occurring on OSAP for mature students. I am sure, as the gentleman who is going to be speaking after you will probably address, many of them are low-income people.



**Mr Jackson:** We have done some very specific work on that and have met with ministry officials over the past few months. It is primarily a question of access to OSAP, that is the biggest thing, for part-time and mature students. We can continue to make suggestions that tinker with the current student assistance plan, but the general feeling by everyone, including I think the minister and the deputy minister—I guess the deputy minister until yesterday—is that the whole plan needs a revamp. We need a commitment from the government to undertake a comprehensive study of OSAP, with a commitment to revamp it at the end of it. We will continue to tinker away with it and we will be meeting with the director of OSAP to discuss the specific ideas we have for mature and part-time students. We would much rather revamp the whole system and start from scratch, but if it is the will of the government to keep tinkering with it, we will.

**Mrs Sullivan:** I am interested in the portion of your brief in particular which relates to faculty on campus. I note that you are supporting OCUPA's position on the creation of 1,500 new tenure track positions. A short time ago, I cannot remember whether it was in the 1986 or 1987 budget, there were additional moneys provided to the universities for faculty renewal. Indeed, they were welcomed by the universities. Perhaps everything could not be done at once, but there was an attempt made. Around that time as well, and perhaps a little bit before that, there was some consideration among the universities themselves that a more appropriate way of renewing faculty was indeed not the tenure route, that the tenure route was in fact discouraging faculty renewal, and that the new, eager, creative people were being cut out of the process through that route. I wonder how you have come to the conclusion that that is the best way to go in terms of faculty renewal, which is clearly a goal we all share. Why have you reached that conclusion?

**Mr Jackson:** I think the biggest problem with non-tenure track positions is access to the instructor. What is happening right now is that as universities are forced to cut back, they hire part-time lecturers. In faculties like accounting or similar programs, they hire actual practitioners from the local region. The problem with that is that students have very little access to those people outside classroom time. A part-time lecturer will come on the campus, give his or her lecture and then leave campus.

I suppose at the same time there is the problem that if you do not have tenure track positions and you do not have full-time faculty, what is happening with the research? The logical conclusion is that research is either not being done or is being done by corporations. The problem again, when we come into this whole notion of corporate research, is that it eliminates this whole notion of academic freedom, because the funds have come in from a company that wants research one way or another. Eventually there is going to be a void of research that does not meet the objectives of IBM and the corporations that can afford to pay for it.

So I guess it is twofold, but the more important specifically for us is the lack of access to the instructor when or she is not in a full-time tenure track position.

**Mrs Sullivan:** I think it is interesting that it is a matter of access. You feel that students need more time and there is not possibly space for them to be housed on campus and that the income they are making does not allow them to spend more time there.

**Mr Jackson:** And if I can add to that, it is compounded. As the classroom sizes get bigger, you have less direct contact in a classroom with an instructor and then you get less direct contact outside the classroom.

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**Mrs Sullivan:** Do you see any other alternative to tenure to meet the same goals? These are budget issues, versus much budget issues.

**Mr Jackson:** I think whether it is tenure or not tenure our point simply has to be that there needs to be funding to allow the university to hire someone who can be on campus full-time, as his or her full-time employment. The question of tenure in terms of job security, which is generally a problem with tenure, is another question. As an immediate direct answer, we do not care if people are tenured or not as long as they are on campus constantly and that is their job. But when their job is elsewhere and they come on campus for three hours, that is where the problem is.

**Mrs Sullivan:** So then you are not fully in support of OCUPA's position?

**Mr Jackson:** Oh, yes, we are. We fully support that position, but if you are telling us we are either going to do nothing or we are going to get full-time lecturers, we will take the full-time lecturers.

**Mr Elmer:** Essentially, it is a question of quality of education as well. Tim mentioned one point, and that was access to professors, but it is not just that. People who have the experience are usually the people who get tenure. I do not necessarily agree with your presumption that these get-up-and-go type, aggressive people are not getting those jobs. I disagree with you on that point.

**Mrs Sullivan:** That was something that came out of the university community three or four years ago.

**Mr Elmer:** Yes.

**Mrs Sullivan:** It led to the grants for faculty renewal and that is why I am pursuing it.

**Mr Elmer:** Just to reiterate my point, it is a quality of education issue, and that is why we do agree on a lot of points that faculty bring up, and obviously vice versa, as well as staff associations. And you are right, it is a budget issue.

**Mr Kwinter:** Just to pursue this whole topic of tenure, it is a subject that I am very familiar with. I waged a battle with OCUPA many years ago while I was the vice-president of the Ontario College of Art. OCUPA's major rationalization and defence of tenure is to give faculty members academic freedom to disagree with the administration, to disagree with society per se. We have a situation in Western where we have a professor expounding a particu-



story on genetic relationships to achievement and things that kind and tenure protects him.

I think there are other mechanisms for protecting people in today's society. At one time, tenure did serve that purpose. Right now—and when I say this, it is certainly not a universally held opinion—tenure really equates to job security. OCUFA is a union. They demand tenure because it gives their members job security. It gives them job security where most other people do not have job security. Again, this is a personally held view.

I do not want to generalize, because there are first-class professors who are tenured. There are also less-than-first-class professors who are tenured, but they have that protection, and it absolutely has an impact on the budget. You have this complement of professors at post-secondary institutions who are there. Again, with all due respect, it is like a civil servant. There is nothing more permanent than a part-time government employee. What happens is that it has an impact on the whole academic-financial relationship.

I would be curious to hear the arguments as to why tenure is that important when you can resolve a lot of your problems by having people whose sort of key to permanent employment is competence. If they are competent, they will be employed. If they are not competent, just like in any other field of endeavour, they will not be employed. Why should these people, given the impact it has on a very serious segment of our economy, the teaching of our youth and our adults and everything else, not be the best that are available?

Again, I want to be very clear that I am not painting with a universal brush. Most faculty members at universities are very competent and very able, but I think any objective observer would agree that there are lots who are not, and those who are not are preventing others who could be capable from getting into the institution because of the tenure track. I would like to hear some of your comments on that.

**Mr Elmer:** I think your point is valid, but I think you could also make the same point for the students that are in the system who do not deserve to be there or who do not work hard enough or what have you. There are also people who are not represented by associations or trade unions that you could make that same point for argument. In fact, I am surprised that you bring up this point because I do not think that is in fact the debate which is currently going on in the post-secondary education community and, by extension, I would say the public as well. I think the debate these days is around democracy and decision-making in university and college institutions.

To bring it back to your point, I think that the way in which we can have some input as students, as public, as citizens, as taxpayers, is to revamp the university and college system whereby more people have a say in things such as tenure and things such as registration priorities, SAP, appeals, all those different things which take place at the university and college level through the committees.

I would have to say that, coming back to the point I said before, we stand quite united with the faculty on this. This is an issue which is brought up again and again, and it is an issue that we discuss among ourselves in the university

and college community. I think we have made a real effort in the past six months as faculty, staff, students and administrators to provide more of a common front. In the past we have tended to sit back and say, "Yes, I think that Mr Kwinter has some points," and we tend to attack each other on that. That is not the case any more. I can honestly say to you that is not the case, and I do not think it is the case that this is really an issue.

**Mr Jackson:** The biggest problem that we have had with tenure over the past few years has been this notion that we have argued that there have been some professors perhaps whose teaching abilities have not been measured the same as their research abilities.

No administrators under financial constraints are going to grant tenure to someone that they think is not going to give them some sort of resources. It just does not make sense, and I put confidence in the administrators of our universities that they would not do that. But because of underfunding, universities are having to look at some professors or potential professors based on their research value. How much can they bring in in research grants and what not? The teaching aspect of it is ignored.

We have absolutely no problems with the concept of tenure. Perhaps problems that exist today with tenure are, we believe, a symptom of underfunding, because if it was not for the underfunding problem, then we would be able to put a higher ranking on teaching when tenure decisions are being made. Why would a university administration—and I have sat on boards of governors of universities that have granted tenure—commit funds to someone who is not going to be a resource either from teaching or from bringing in research dollars? It does not make sense.

**Mr Kwinter:** If I can just comment, I think that in these times of constraint, I would agree with you. What I am saying is that the establishment is already in place. If there was an opportunity for renewal, if there was an opportunity to ask why we would have these people who were tenured 20 years ago, 25 years ago, who are not in a position to do any of the things that we use as our criteria today to tenure professors, why they are still in the system, the argument is: "Well, it is job security. These people have paid their dues and, as a result, they are entitled to it."

I am suggesting that is one of the problems. I am not in any way suggesting it is the major problem. The only reason I even entered into this discussion is that my colleague happened to bring it up, and I can tell you that—

**The Chair:** It is your fault.

**Mr Kwinter:** —I have lived, I have had some historical input into what has happened and much of what has gone on with the changes in the governance of universities.

The present president of the University of Waterloo, Doug Wright, was a one-man commission that looked into the administration of the Ontario College of Art and came up with the first unicameral system. It was absolutely the model that was then subsequently applied to universities across this province and across this country. As I say, I am not in any way saying that this is the major problem that is there, but it is a problem and it is an ongoing problem.



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**Mr Jackson:** Yes, Doug Wright, who gave a workshop at a board of governors' meeting that I attended at the University of Waterloo where I sat on the board, talked about tenure and totally supported the notion of tenure. I would be very interested, if we asked him the same questions, in what his comment would be about that. Perhaps that is something we should do.

**Mr Elmer:** I think it is a valid comment. Now is the time for renewal. That is why we are bringing up these points. There is also the point of manager retirement that was upheld. You cannot take these things out of context. I think there are other factors which need to be looked at as well and that is one of them. But in terms of renewal, we are placing that, as I said to you before, in the context of the actual discussions which will be going on in the coming months and years over university governance, and we have a lot to say about that.

**Mrs MacKinnon:** I wish to commend you for your presentation. It is at times like this when I know my eloquence fails me. I never was very eloquent anyway, but forgive me if my question is very short and to the point. When one of my daughters was in university—I mentioned about the tuition fee and I hear you talking about zero tuition. That frightens me and I will tell you why. When I was discussing my daughter's tuition, there was a person in my home who said, "Her tuition won't even put the bricks around the door." I realize that this particular daughter I am speaking of, it was a few years ago, but I am wondering, if we have zero tuition, who is going to put the bricks around the door. Us, the government, is that what you are expecting?

**Mr Jackson:** No, I think us as graduates of the university and college system primarily, and that is what we have always said is our policy.

**Mrs Sullivan:** Through the taxes.

**Mr Jackson:** Through the tax system, through a progressive tax system, and without patting ourselves on the back, I think there is something to be said when I come here as someone who hopefully will graduate shortly from an accounting program and hopefully will make a decent income and say to you, "Tax me for the post-secondary education that I have had." Our goal is to eliminate the financial barriers to post-secondary education, make sure that no one is denied access on financial grounds and recoup that through both the personal and corporate income tax systems.

**Mrs MacKinnon:** Thanks very much. As I said, I wish I was as eloquent as you.

**The Chair:** I would like to thank you for coming. I do have one short question and it does revolve around the replacement of faculty. If we have 50% of the faculty gone by the year 2006, are we at this time training enough faculty to replace them from this country or are we going to be back into the 1960s dilemma of having to import professors from other jurisdictions?

**Mr Elmer:** Actually, that is the debate which is going on these days. I sat at a meeting a few months back where

you had people from the education community say "This is ridiculous," pointing the finger at university administrators and saying: "You are not letting enough people into teacher education programs. In fact, you are cutting back on the number of people who are being trained to be teachers."

That is a big concern. I know that is a big concern of the Teacher Education Council. They discussed those meetings they held about a month ago. It is a concern of our members as well, because what is happening is that as they are cutting back on the enrolment of the people who are allowed into that program. You have to get the pluses, straight As basically, to get into those programs. At the time when the demand is, you are absolutely right, increasing and increasing.

**Mr Jackson:** But in terms of professors, it is over the past few years that the number of graduate students in the province has gone up significantly; the number of graduate student scholarships has remained frozen. As to the question of whether we can import them, the argument is the other way that is going on right now is, are we losing many to the United States because we cannot offer competitive salaries and, more important, can we offer competitive research facilities here in Canada?

Again, it is a symptom of the underfunding problem but I think the point we want to emphasize is that if government undertakes some sort of faculty renewal program, it is the perfect time to implement as well some sort of employment equity program to increase the number of female students in graduate programs in engineering, science, and thus eventually increase the female professorial in those faculties. Where are we going to get them from? That is a question that many would suggest right now.

**The Chair:** Thank you for coming.

#### ONTARIO COALITION AGAINST POVERTY

**The Chair:** Our next presentation is from the Ontario Coalition Against Poverty. This is John Clarke. If you would begin, please.

**Mr Clarke:** First of all, I would like to apologize for the fact that my co-presenter is not here. I am particularly chagrined that she is not here since I intended to do more than introduce her. None the less, making the best of things, I perhaps would like to run over some of the points that we intended to make and which we outlined briefly in the letter that we sent to your committee.

We did want to begin by making the point that our function as an antipoverty coalition is not in that sense the function as a sophisticated think tank that can bring financial projections before a government for it to consider. Our role is more one of talking to the need that exists in the community and outlining some measures that we think will make a difference, measures that we think are more important but measures that are desperately called for.

We met last week with the Premier and discussed some of these questions, so I think they need to be brought up and we would like to acknowledge that we are not insensitive to the fact that Ontario at the moment faces some very difficult times, that a recession is not just simply a hurt



gedy but has a direct bearing on the government and on question of revenues.

We also would like to acknowledge that the government of Ontario faces a very difficult situation with regard federal initiatives that are, it would be a gross under-ment to say, less than helpful. We look at the impact Bill C-21, the unemployment insurance bill. We look at impact of the cap on the Canada assistance plan and we recognize that there is a real problem.

However, we are very, very serious about holding the government to promises that it made during the election campaign. We understand the problems, but frankly we think the problem of a government with fiscal problems is a relatively modest problem compared to the problems facing poor people in Ontario, the 100,000 people a month in this city alone who have to go to food banks.

We would make the comment that the argument that there is no room in the lifeboat is a lot more appealing to people who have seats than to the people who are expected to go down with the ship. Therefore, if we introduce into the debate around the initiatives that the government should take the irrationality of the desperate, we think that perhaps that is somewhat appropriate, that there is in our opinion, a need to be straining every resource in order to deal with the situation at the moment.

We would like to make the point when we address initiatives that are being taken around improving the welfare system, etc., that those are indeed important initiatives, but as far as we are concerned, the question of income adequacy is absolutely fundamental and is something that is going to have to be addressed if welfare reform is going to mean anything. In fact, welfare reform that is approached in such a way as to exclude movement on benefit structures, on the rates, threatens to be, in the final analysis, nothing more than a cosmetic diversion. The real issue is are people going to be paid enough to live on?

In our opinion, that means dismantling an edifice of legislative poverty that has been built up in this province over an extended period of time. That means we would oppose dealing with the minimum wage in a very, very cautious fashion and in a very timely fashion.

40 We are aware of the fact that during the campaign the plan for the raising of the minimum wage to 60% of the average industrial wage was advanced. We also acknowledge that that was not promised in one go. But we would urge the government to move rapidly in that direction to consider returning the minimum wage to its 1975 spending level, which would mean about \$6.50, we would understand today, as an important first step, and to move rapidly with a clearly mapped out timetable to raise the minimum wage to the level that was promised. It is certainly not a princely wage; it is certainly something that will make an enormous difference to hundreds of thousands of people in this province.

Similarly, on the question of social assistance, we think there are two key areas that have to be looked at in terms of moving towards adequacy.

One is with regard to the general welfare assistance system. If a government is interested in moving in the

direction of welfare reform, it must be acknowledged that as long as you have municipalities picking up 20% of the costs out of an inadequate municipal tax base and as long as you face the situation where, going with that, you have an inordinate number of local discretionary powers in the hands of those municipalities, you are not going to achieve a process of welfare reform. Indeed, you are going to have initiatives taken that are going to be horrendous.

We are aware of the fact that there is brewing a veritable municipal backlash. You have things like Kent county passing a resolution calling for the freezing of welfare rates throughout the life of the recession. You have Hastings county wanting to go over the list of everybody who is on welfare at its council meetings every month. You even have the municipality of Ottawa-Carleton looking seriously at social services cutbacks, social assistance spending cutbacks. That is a very, very serious development, because Ottawa-Carleton traditionally has been viewed as one of the more liberal municipalities with regard to the implementation of the general welfare assistance program.

We do make the point, and make the point forcefully, that particularly at this time of recession and pressure on the municipalities, there is a need to move rapidly to dismantle the two-tier welfare system, which is by no means something that exists in all provinces.

We would also make the point that the antipoverty movement on the question of benefit rights has campaigned actively in the past around a call for an increase in the minimum wage by 25%. That is something that was supported by the present government when it was in opposition. We would say that is a realistic figure, that is a figure that would make a significant difference, that would hold the line on the food banks, and is the kind of figure that we have to be talking about if we are talking about alleviating the suffering of people at this time, let alone reforming the welfare system.

I would, just before I turn things over to Heather, like to make the point that our organization does indeed, as some are probably aware, have a history of mobilizing on poverty issues, raising the concerns forcefully.

Perhaps I would like to direct my comments primarily to the members on the government side when I say that a great deal has been promised, a great deal is expected. The situation we are facing at the moment is indeed a very, very desperate one and I think Heather is going to speak to it in a moment.

We would very much like to be an organization that found ourselves backing changes that were being introduced, rallying to support those changes, taking on the critics who oppose those changes, but in this present situation we are facing something that is so desperate, something that is so severe that we have no choice but to continue to press around those very basic and important demands that we have in the past.

So perhaps, Heather, you would like to add some comments.

**Ms Pringle:** I just wanted to speak to you today about a situation I found myself in for a while. I was not always on assistance, but it is also a situation that any person can find herself in who loses a job through circumstances



beyond her control. It is a very degrading situation, humiliating, a thing to be avoided. The reason is that people treat you with such disgust because you find yourself in this position.

There are things like food banks, which are Band-Aid situations. It is a very humiliating thing to go to a food bank. They want to know your name, your rank, your serial number. If you really and truly are on welfare or family benefits, you have to prove that. You have to tell them how many people are in your family. The thing that you get is very inadequate. Recently, and I think I understand some of it, you cannot go to more than one food bank per month, because now they have you computerized, which is really fun. If you run out of food and your children are hungry, you can only be serviced by one food bank. Then that goes back to the basics.

I have two sons. I do not get an adequate amount to live on for the month. I am sorry, but I really do not. I have to scratch and really use my wits to get through the month and then I have to possibly use a food bank, or there is another scam going around. I get my cheque and there are Money Marts and places to cash my cheque ahead of time. So if I do not want to go through the indignity of going to the food bank with humility, I can get my cheque cashed, but it would take about \$30 to \$50 off my cheque which already the government has given me.

I think some dignity, respect and a raise so that I can exist and have the same self-respect as any of you going to a grocery store, being able to budget without having to go to the food bank—I would like to see the food banks totally eradicated. The necessity is there for them right now. If you could see it clear to raise the assistance amount so that people can live—food goes up, telephones go up. I do not know, even Bell telephone thinks it is a privilege to have a phone when you are on assistance. With my children, I feel it is a necessity.

Things that you people take for granted are things I have to struggle to obtain and struggle to keep, because the minute I am known to be on mother's allowance or welfare or anything like that there are a lot of things that are in jeopardy for it. Things that you can get on credit I must have the cash for, and sometimes it takes me a long time to get that cash. Then I may not make it because something may come up through the month, like my children want to participate in something.

I also want to speak to the education system in this province at the moment, or what I have experienced. My children go to school and because of the address they come from they are automatically seen as needing special education. The only thing they really need is the same amount of respect and consideration that your children would get in your school system. They do not need to be stigmatized or segregated or separated in any way. In any other class besides the poor class, a child is taken on his own merit and he rises or falls depending on his ability. When you see a child come from a poor section or from an address that you know is, say, Metro housing or Regent Park, you do not expect him to achieve, so you do not give him the opportunity, and unless he struggles really hard, he never gets the opportunity. I think that is wrong.

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When I was growing up in Toronto and going to school here, we had the "brighter children," the "average child" and the "slow learner." We all learned from each other because everybody has something to give to a cause, a community, whatever. I want you also to realize that the children are quick learners. The way their parents are treated, the way they are treated, is going to have a profound effect on their future, on our future as a country. I think if a child grows up feeling cheated because of the way he was treated through the education system or lack of dignity and respect he was given because of the situation that his parent or parents found themselves in, that will come back on you some day.

I would like to see every child get the same advantages, to the best of everybody's ability, because to me children are precious. I know your children are precious to you. They are something that is going to build this country and expand it. I want them to have the same opportunities which may not deal with the issue of, you are thinking now, "What has that got to do with raising my level of income?" It has a great deal to do with it, because when my child goes to school, I want him to look just as good as your child. I want him to hold his head up high. I do not want him to be called a welfare case. I want him to have self-respect. I want him to be treated the best as anybody can, as the next person.

In school, it starts when he starts to go to junior kindergarten. It is something I felt very strongly about. It was something I had to deal with with my older child. They sent him off to special education classes at the age of five. Then they come back and they reintegrate them, but they are always kept at a basic level. Another child can go to the average or the advanced. I do not think that is fair. I think if you are worried, maybe you feel that my child does not have the same advantages as your child, and it is true, he does not, but he certainly would like to have the same warm feeling going to bed at night, because he is not hungry; he would like to be able to have the same advantage of a warm coat, of things that are very basic things you do not even think about because you are able to provide them.

I would also like to talk to you about the working poor, the person who suffers, as well as the welfare recipient. The working poor man and his family struggle along. The working poor man starts to sometimes in his frustration think, "Why shouldn't I go on assistance?" He works, but he ends up in the same address as myself. His kids go to school; he works. He sees nothing for his toil. He is heavily taxed. He cannot get himself ahead. His frustration and his anger turn on, say, the person on assistance, because he does not understand why that person is getting this and he is getting nothing.

I had a conversation with a friend of mine. I said, "I am getting any more than you?" I am not. We sat down and we worked it out and he was getting far more than I am and still could not survive. He had double the amount of money come and could not survive, and he worked for it. I work for it too. I am what you call a domestic engineer. I think my job is worthy of what I receive. In fact, it is worth more than I receive.



I wanted to tell you about this. I wanted to tell you about the humiliation, which possibly you have never experienced, and I hope and I pray that you never do. But I want you to realize that with the recession there are going to be thousands and thousands of people in this country put in the same situation. But for the grace of God, you could say, there go I. It is not a life that you would want to choose.

I hope that in your consideration and your deliberation you will consider the fact that I am really begging for the people who can hardly make it. I do not know what else to say to you. It is an urgent situation; it is a dire situation; it is a desperate situation. Every day there are more and more people being placed in this position. I have been around through the Ontario career action program and different things that I belong to, I have been down here. I have heard your promises, and I really want to see what you are going to do about what you said you would do, because I believed in you. Thank you.

**Mr Kwinter:** I just want to thank you for the presentation. It was very moving, and I certainly understand your point. Again, I have a concern that some solutions are simplistic. I want to address the minimum wage in particular. There is no question that anybody earning minimum wage is certainly earning a very paltry income.

The problem that we have, and we have been hearing about throughout the hearings, is the problem of our competitiveness. Capital is fluid; it goes where it thinks it can get the best return. What happens is that when people are looking to invest, and we are a heavily investment-dependent jurisdiction, they look at all of these components. They look at our taxation, they look at all of the things that go into it, and minimum wage is one of them.

We have had a policy, which changed just last year, whereby we have always been in tandem with Quebec, because we felt that the minimum wage in the United States was far below ours but at least we should keep in tandem with Quebec. This year we have deviated from that. Quebec maintained its minimum wage at \$5; we went to \$5.40. I have no quarrel with that.

The problem is that if we were to go to the goal of 60% of the average industrial wage, if you did it immediately, you would be at \$7.20, and even if you did it in five years' time, with inflation built in, you are looking at a pretty substantial number. But that is not all of the problem. The problem you have is that those people who are at the minimum-wage level—and as I say, my heart goes out to them, and I think they are entitled to more money—but there is a sort of a reaction effect. The other people, people who are now earning \$8 an hour for relatively menial tasks, their mindset is that they are out earning X dollars above the minimum wage, and when they sort of evaluate their income and their job, they say: "My God, I won't work for that; that is minimum wage. I am worth more than minimum wage. I want—" whatever it is.

As I say, I know from personal experience because my family has a business and we hire a lot of unskilled people, and these are people who cannot even speak one word of English, but they know one thing when they walk in—\$8 the starting fee. That is what they want.

When the minimum wage goes up, it would be great if the only thing that was affected were those people at the minimum wage, but what happens is, everybody other than the highly skilled workers who have got union contracts that pay them in the \$20 range, whatever it is, but that other sector, which is very significant, will immediately react and say, "Well, if the minimum wage has gone to \$6 or \$6.50 or \$7.50, then certainly the differential between that wage and our wages diminished dramatically and we of course want to go to \$9, \$10 or whatever it is." It has this escalating, ratcheting effect, which then impacts on our competitiveness. That is one of the problems.

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It would seem to me that what we have to do is address the problem of the people who are at that low end of the wage scale, but in such a way that it does not automatically ratchet the whole thing up, where what it does is raise the actual number but in the long term does not change anything, because all you are doing is playing with numbers but you are not playing with what happens. It just sends everything up a notch higher and you have the same relationships. You have the people who are at the bottom still being deprived.

That is a concern I have and I do not know the answer. I am just saying that I have wrestled with this for a long time and I believe that just changing that number is not necessarily the solution. If you could do it in isolation that would be great, but it cannot be done in isolation and it is going to have an impact all the way up the line.

The other thing I want to talk about—again, I apologize because I have not been able to keep abreast of everything that has been going on in the Legislature for the last six years—is that it seemed to me that we had discussed this problem you have about cashing welfare cheques. It may have been in private member's hour or whatever. I thought we had addressed it in the sense that we had made it illegal for someone to charge a premium over and above what he normally charges for cashing any kind of cheque and that we were going to provide some sort of photo ID that would not be a credit card, per se, but would certainly be tied to the welfare cheque so that you could go into any financial institution. It would have your picture, your signature and a correlation code, so that the cheque would go in and you would have no hassle as long as you could show the card to show that you were in fact the recipient of—

**Mrs Sullivan:** At the bank?

**Ms Pringle:** A welfare cheque is one of the hardest cheques to cash. The bank does not want to take it unless it is the exact date. But sometimes I run out of food before the exact date, so I have two choices: I can go to the food bank which gives me nothing, okay, or I can get my cheque cashed. In doing so, the amount of days ahead that I have to cash that cheque is the amount of money they take off that cheque, and it is a percentage.

**Mr Kwinter:** Let me just tell you another problem, and this was certainly addressed at the federal level. People who filed their income tax were entitled to a refund and went out and discounted it before they got their refund



back. In other words, they would go to an institution that specialized in that and they said, "Bring us your income tax return and we will give you the money that you are going to get back from the government." What they did not say is, "We will give it to you, but we will take a very healthy percentage of that for our efforts."

What had happened was that the federal government, I think, has stepped in to prevent that from happening, but there is also an educational problem and I do not know how you would do it. They found that there are people out there—it did not matter if it was two days away—who would still go out and discount those cheques because they want the money now and are not going to wait two days. That is a problem. It is a problem if you are really in dire straits. There is no question about that.

To my mind, these are issues that can be addressed on the one side, the actual logistics of how you get the cheque cashed, how you do that. How you alleviate the desperation that sort of puts you in a position where you cannot wait that one day or that two days; I do not know how you can address that with that vehicle. Those are just the things I currently hear.

**Mr Clarke:** Actually, just quickly on the question of the cashing of cheques, in fact I was part of a deputation that met with you a number of years ago and discussed the very point. There were a number of initiatives that needed to be taken, many of them federal, but one of the key ones that could be taken by the province is the question of the postdating of cheques.

The problem you have is that assistance cheques are mailed out. They are dated for the first of the month and yet they usually arrive on the 27th or the 28th of the month. People then find themselves in a situation where they have a cheque they cannot cash, so they go to Money Mart or whatever, which takes its cut. Some municipalities, including I believe Metropolitan Toronto, have decided to date the cheques for the time when they actually arrive and they can thereby be cashed. That has substantially reduced the number of people having to go to Money Mart. I believe that in Hamilton-Wentworth they discovered about a 50% drop in their business. But some of the changes have to be tackled at the federal level through the Bank Act as well.

On the question of the minimum wage, we could, I suppose, wax philosophical. We are really into a situation where I suppose that what it comes down to for us is a basic bottom-line position that people have to be entitled to a living wage. To peg the minimum wage at a sub-poverty level is to us unconscionable.

I think working people throughout history have come up against the competitiveness argument. It cuts both ways of course. You can say that the minimum wage should go down and then there would be more employment. It seems to us that Ontario, as a wealthy province, should be taking a lead on the question of the minimum wage and pushing it up.

Frankly, this discussion on it between you and me is somewhat academic. What we are into is a situation where we are dealing with a concrete election promise. The government in power did subscribe to the view that the minimum

wage should be raised to that figure. So I think, frankly, are addressing our comments primarily to that side saying that we would like to see very rapid movement.

**Mr Kwinter:** Good luck.

**Mr Phillips:** You kind of said it, John, the last time you and I had this debate in front of my campaign headquarters. I put forward the best argument I could of we arrived at it. The rally was organized by the labour council and stuff. It was good publicity for the NDP, question of it, and the NDP won and we lost. You got your promise.

I went through with you, John, as you remember, they had concerns about the number of jobs that might be lost but we lost that argument. I went through on the social assistance side and said, "Listen, we've doubled the budget get from \$3 billion to \$6 billion over five years." The NDP has said that is not good enough. As you say, I think it is academic. You are addressing your comments to the right side and the best we lowly opposition can do is to hold them accountable for it and see just what happens.

It was an interesting debate on the front lawn, emotional and not particularly pleasant for me, because, as I say, there was lots of emotion involved in it. We were made to look like the bad guys. The best we can do for you, John, is to say, "They won, we lost and we will wait for them."

**Mr Stockwell:** Frankly, you are going to find a lot of promises they made that they are going to have to fill. They are not the only one here who has come forward who has reminded them they made promises. They have already broken some and there is going to be a string of them. I am quite sure. I am quite certain your promise is going to be another one. So it is going to be an interesting few years we have ahead of us.

I would like to see how they defend themselves tomorrow. It will be interesting hearing them tell you exactly what they plan to do, considering that they were very clear-cut and very understanding during the election as to what they could do. It has changed and that is what happens when there are elections and people get power.

**Mr Phillips:** Don't be cynical.

**Mr Stockwell:** I am cynical, aren't I?

The question I have is on the cycle we are in now with respect to the process and the amount of money and so on. How long has it been now since you have been caught in this cycle where you are spinning your wheels, basically, and you have lost your job?

**Ms Pringle:** Ten years. Ten years ago the situation was that my husband and I separated and I did not have the skills to go back to work, but I also feel that my children were my priority.

**Mr Stockwell:** I am not arguing that at all. I was just curious with respect to you having said you came into this problem because you lost your job through no fault of your own.

**Ms Pringle:** No. I said people find themselves in these situations through no fault of their own. I do



nt to perpetuate the cycle. I want my son to grow up and k for a job and have some self-esteem and self-respect.

**Mr Stockwell:** I am not arguing that. That is not the stion. I do not mean it to be the question. I do not want to taken incorrectly. I thought you said that this happened ough no fault of your own because you lost your job.

**Ms Pringle:** My husband and my job; they both left.

**Mr B. Ward:** She said through no fault of her own, she did not say she lost her job through no fault of her n.

**Mr Stockwell:** I am sorry, I misinterpreted that. I see. now it has been 10 years that you have been caught in s, and I assume through your statement that at some e during the process you moved into some form of tro housing.

**Ms Pringle:** Yes, I did. I am very fortunate because I e in Metro housing and it is geared to income, but what cks me up is that it is also government-oriented, so as n as my minute increase comes, Metro housing grabs it.

**Mr Stockwell:** They grab 33% or whatever of that nute increase?

**Ms Pringle:** That is right, so if my cheque goes up, rent goes up.

**Mr Stockwell:** I understand that too. Today, though, we see it, you are fortunate to be in Metro housing.

**Ms Pringle:** I am. There are people out there who are ng to exist—

**Mr Stockwell:** Who are not in Metro housing.

**Ms Pringle:** —on these cheques who have to look for ular housing. They have my heartfelt sympathy, be- ase there is nothing out there.

**Mr Stockwell:** Right. Now considering the fact that u are in Metro housing, which is, again, geared to in- ne, I assume 33% or some type of figure like that of ur income is paid as rent and the rest is left for you to end however you can spend it.

**Ms Pringle:** It sounds so easy.

**Mr Stockwell:** I am not pretending for a moment to ke it sound easy. I am just trying to get the rules down d those are in fact the rules, so you would be a more tunate individual than the ones who do not get some m of assisted housing.

**Ms Pringle:** I am. However, I do not feel fortunate ause we live in a country that is rich in grain and rich in d.

**Mr Stockwell:** "Fortunate" is maybe the wrong word. ill withdraw "fortunate."

**Ms Pringle:** I do not understand why I am in this sition when I am in one of the richest countries in the rld.

**Mr Stockwell:** That may well be true and I can under- nd your feelings.

The other question is, what about a job search? At this nt in time you are staying at home to look after your ldren. Again, it is admirable, and I am not suggesting it

should not be done that way, but my question stands, though. Is there any thought of maybe going out and look- ing for a job?

**Ms Pringle:** I have taken part-time jobs, part-time be- cause on assistance you are not allowed to make anything.

**Mr Stockwell:** No, I understand that, but I am thinking more of a full-time job that pays you more than assistance.

**Ms Pringle:** If you do, they take your benefits away immediately and they do not allow you to get on your feet.

**Mr Stockwell:** Again, I do not want to put words in your mouth, but I am trying to get the questions asked and clarified. I am thinking more of a full-time job that would pay you more than assistance.

**Ms Pringle:** I would love to find it, but I also need—

**Mr Stockwell:** And you have not found it in 10 years?

**Ms Pringle:** I have not found it. I find part-time jobs around Christmastime to help me get through Christmas.

**Mr Stockwell:** Okay. The last question is if, for in- stance, a job were offered at full-time money that paid you more than assistance, would you be interested in going back to work?

**Ms Pringle:** I certainly would.

**Mr Stockwell:** You would be interested in going back to work.

**Ms Pringle:** Yes, I would. Have you got a job?

**Mr Stockwell:** I do hire some people, but I do not have a job right now. I have just laid off a bunch of people.

The last question I have is, have you in fact looked for that full-time job?

**Ms Pringle:** Yes, sir, I have.

**Mr Stockwell:** And you cannot find a job in 10 years?

**Ms Pringle:** No.

**Mr Clarke:** Perhaps I could just make a point. We talk of a cycle, but I think in the 1980s recession to reces- sion, as it were, what we have seen is not so much a cycle as a descending spiral, in the sense that the recession we are now getting deeply into is fundamentally a different creature from the last one in the sense that throughout the period of the 1980s the welfare case loads did not come down significantly. Also, you had an enormous transfer of people over to the low-wage, primarily service, sector in terms of the employment that was out there.

As to the shape that poor people are in, they are al- ready suffering more and in much greater numbers than previously. The impact of the recession, therefore, is prov- ing to be that much greater. I think that is something that needs to be taken into account when emergency measures to deal with the situation are looked into.

**Mr Stockwell:** Again, we could wax philosophical, I suppose, about that stuff as well, all day, and probably it would not make a wit of difference because we do not happen to sit on that side of this committee.

The question, though, that I was driving at is, if there were available work, is it something that would happen? Really the answer is yes and that is good. Sorry; go ahead.

**Ms Pringle:** Could I finish? I am sorry; I realize that I did not really, truly answer your question properly. If I

were to go to work I would need supervision for my children and I would need bus fare. What I am saying to you is that there is no support system from A to B. If you sat down with me, you would tell me to stay on welfare because by the time I get all these things looked into and approved, like day care—

**Mr Stockwell:** Would you qualify for subsidized day care?

**Ms Pringle:** No, I would not. I have two children, so I would maybe be subsidized for one, but have to pay for the other.

**Mr Stockwell:** No. I mean, if you qualify, you qualify.

**Mrs Sullivan:** Mr Chairman, I am not sure that it is relevant to speak directly about the individual case of the person.

**Mr Stockwell:** I am sorry, Mr Chairman, I certainly did not want it, but the deputation was clearly an individual deputation and this issue was clearly brought forward. All I was curious about was this individual case. If we were not going to discuss this, that is fine, but you are going to have deputations about individual cases and I think we should have at least a little bit of leeway to discuss it.

**The Chair:** I think there has been a lot of leeway on this one already.

**Mrs Sullivan:** I think I reached my level of tolerance, I suppose, and that is why I raised it.

**The Chair:** I would like to move to Mr Hansen's questions now.

**Mr Hansen:** John and Heather, I am not here to criticize on your personal lives there like Mr Stockwell.

**Mr Stockwell:** On a point of order, Mr Chair: That was an unfair comment. It is out of order and it is totally unacceptable. I did not criticize their personal behaviour or personal play. I take great exception to that.

**Mr Hansen:** I take that back. I apologize.

**The Chair:** Can we move along?

**Mr Hansen:** In 1981-82 I was involved in a local church starting up a soup kitchen and I know the dignity that a lot of people lost at that particular time on the loss of jobs. I have experienced it first hand in that particular area. The one thing that did happen at that time, at that Christmas is that you are talking about having have to go in and give your name, where you live and what you collect on welfare. What we had was some people who were working at the local plants making \$40,000 and \$50,000 a year coming in and picking up toys, picking up food. It was some way to check that the people who were not entitled to it were not receiving it. So what happens? It comes down to the people who are supposed to be receiving it having to go through all these checks.

I am just trying to explain what I could see going on. I think what you are saying is that you have to go through all these checks in order to get there. It is because of the people who can afford it who are going in and collecting, and so that there is enough there for people who do need it. I think that is the reason there.

On the cashing the cheques, I know that has been a problem, and explaining what you said, that staying home is better than actually going out to work in some instances with the system the way it is. I think it is going to take the government a little while to figure out how to work in these plans coming up. We had the throne speech 20 November. We are just a couple of months in there, and as I have been told we are spinning our wheels right now, but I think it is going to take a little time. It is not going to happen tomorrow or next week. It is going to take a little while before everything comes into place.

With the economy the way it is, I realize that—not only yourself; it has been there for a few years—we are going to have a lot more people in the same situation and we are going to try to address it.

**Mrs Sullivan:** I have been very interested in following the recommendations over a period of time that have come out of the Ontario Coalition Against Poverty. I think that for the most part, no matter what government, there has been real attention paid to the words that we say and the meaning and experiences that come behind those words. I look at your recommendations today. I think the major one, the rate issue and the minimum wage issue have both been included in the Social Assistance Review Committee report. Initial steps have been taken to implement the SARC report and with luck and with good management, indeed those increased steps will be taken over the next period of time.

I was quite interested in your comments that you felt the province should take over 100% of the delivery of social assistance. Certainly that was the municipalities' position last year and, I guess, the previous year. I think that was also the position of the SARC report, although I was flipping through things to see what kinds of recommendations they had made in those areas. One of the things the SARC report pointed out is that no matter who the deliverer is, whether it is provincial or municipal, a major constraint is the cost of housing. Are you still seeing that? You did not raise it and I wanted you to have the opportunity to speak to it.

**Mr Clarke:** I think it is absolutely unquestionable that the cost of housing is a major question. We have supported initiatives that we see coming out of this government around rent control. We note the commitments made around areas of non-profit housing, etc, in *An Agenda for People*, the document submitted by the government when it campaigned for office.

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Unquestionably, those things are true and we would indeed want to go on record as continuing to support them. We would want to continue to support initiatives around child care, another absolutely vital question. It is simply that we want to zero in on something that we see as being a very simple, straightforward question, the question of income adequacy, as being perhaps an area where in the most clear-cut and obvious fashion a government should quite frankly, we expect and hope something different from can act and act with dispatch. So if we are looking myopic, it is, I think, deliberate.



**Mr B. Ward:** Just a quick question and comment. I think that what you are saying, John and Heather, is that poverty is eradicated from this province, if it ever was. But you and your organization are not going to go any further. You are going to keep our government on its toes so that we can progress from a socioeconomic standpoint for the betterment of working people who are at the poverty level. That is the basic message, that you would like to see some clear-cut action against poverty in this province.

**Mr Clarke:** Undeniably true.

**The Chair:** I have just a quick question for my own information. When a person collects welfare then goes on to work and receives money from a job, at what rate is the welfare reduced?

**Ms Pringle:** I can collect \$150 over and above my monthly benefits cheques.

**Mr Kwinter:** Over what period of time?

**Ms Pringle:** Per month. Then over and above that, I must pay back the welfare. If I make \$200, I have to give \$200 back because they consider they have already paid me.

**The Chair:** So it is dollar for dollar?

**Ms Pringle:** It is dollar for dollar.

**The Chair:** What impact would there be if that regulation was removed?

**Ms Pringle:** I think that would be great, if there was a support system. If anybody took the opportunity to find a job or go back to school and get training or whatever and get into the job, as long as there was a support system in place until the person got on his feet. For instance, it takes three months for OHIP to go into place. I think three months after you have paid your last payment, it supports you until you get another job or you go on assistance or whatever, if there was a place there where it was supportive.

Imagine we were not in a recession, but people who are struggling to get back into the workforce find that using the welfare system, and it is a deadly trap, trying to struggle to leave it, they have everything cut from beneath them before they are able to pay for things like drugs, which are phenomenal in price, or a dentist.

Even on assistance, unless my teeth are rotting in my mouth, I cannot go to a dentist, you understand, unless I have had the teeth removed or a plate. My children can get fillings and things like that, but it is \$45 to clean my teeth. My teeth rot in my mouth until I cannot take the pain any more and I go and get the dentist to remove them.

I wish you could appreciate that, because that happened to me only last year. The card says emergency benefits. My children can have their teeth cleaned—thank God for that—and everything looked after for them, but I must have my stiff upper lip and wait to the point that I must have that tooth removed. It is beneficial in a way. I kind of laugh when you say family benefits. But then it is also a very real punishment too. It depends on which part of the thing you see now.

**The Chair:** I thank you for coming. All I can say is that there will be a long, hard debate on this issue over the next while. Thank you for your presentation.

## PERSONS UNITED FOR SELF-HELP IN ONTARIO

**The Chair:** Our next presentation is Persons United for Self-Help in Ontario; Francine Arsenault, co-ordinator.

**Ms McGregor:** This brief is not just from Persons United for Self-Help in Ontario, which is PUSH Ontario, but also from Disabled People for Employment Equity.

**Mr Southern:** I want to say before we start that I am glad that the committee responded better to the last presentation than it did to the income maintenance committee's presentation. I was a bit disappointed in that. Not one question was asked of our committee. We worked damned hard on that presentation. I got the feeling that some of the committee members felt they had heard it all before. In fact, one of the observers who came in said that one committee member read the paper, and I will not say who, but I would appreciate it if you would give us your full co-operation this time.

**Mr Sutherland:** I will just tell you one of the reasons I did not have any questions was because you had it well documented in a written form.

**Mr Southern:** I do not think you have to justify yourself.

**Mr Sutherland:** No, I am just saying there was a sense that maybe some of the committee members were not as interested in that presentation or what have you.

**Mr Southern:** I think the last presentation was not that different from ours and people came up with enough for them. Disabled people are one of the biggest groups in Canada that are still living in poverty. Over 50% of disabled people in Canada earn less than \$10,000 a year. I think that is criminal. We heard it said how rich this country is. Everybody seems to think that inflation and profit margins that employers are allowed to earn were caused by poor people. It was not and it is not. I get infuriated when I see how so-called politicians respond to some of these presentations. Sorry about that emotional outburst, but it does me good now and again.

Anyway, down to business. My colleagues are Richard Dector from PUSH Ontario, who is our project co-ordinator and helps keep PUSH afloat, and Carol McGregor, who, as the co-ordinator for Disabled People for Employment Equity for about a year, has done phenomenal work in the area of employment equity. I believe that this government's policy on employment equity, which we hope will come to fruition soon, was partially formulated by her hard work.

Anyway, what Carol is going to do is go through our paper. We are going to present a sort of joint DPEE/PUSH view on the various issues. I think Carol is going to read in point form, and I am going to comment on some of the stuff. Carol or Richard will also make their comments.

**Ms McGregor:** Thank you very much, Mr Chairman. I wonder if you would have the members do John and me the courtesy of introducing themselves. We do not have the ability to see their signs.

**The Chair:** I will begin. I am Jim Wiseman, Chairman of the committee.

**Mr Christopherson:** I am Dave Christopherson from Hamilton Centre.

**Mr Sutherland:** Kimble Sutherland from Oxford.

**Mr B. Ward:** Brad Ward from Brantford.

**Mrs Sullivan:** Barbara Sullivan, Halton Centre.

**Mr Phillips:** Gerry Phillips from Scarborough-Agincourt.

**Ms McGregor:** We lost some in the process, I think.

**Mr Southern:** Teatime.

**Ms McGregor:** Yes.

**Mr Southern:** Okay, Carol, let's go now.

1730

**Ms McGregor:** PUSH Ontario seeks to provide a unified voice for more than 900,000 Ontarians with disabilities of all kinds. Disabled People for Employment Equity is a coalition of more than 30 consumer groups and service-providing agencies dedicated to ending the chronic unemployment and marginalization of people with disabilities. Together we ask the members of the committee to consider the following measures strongly.

Disabled people continue to live in unnecessary and unacceptable poverty in Ontario. We recommend the committee endorse the following steps towards changing this little-regarded reality.

Income maintenance, health and social services: We recommend that the government of Ontario extend the assistive devices program to include all equipment categories, including communication aids for the visually impaired.

**Mr Southern:** Keep going, because I spoke quite liberally on that before.

**Ms McGregor:** Disabled persons receiving government assistance who live with members of their family should not be penalized by being paid a lower "non-profit boarding rate." End this practice.

**Mr Southern:** I think it is worth pointing out, which I did not when we were making our brief before, that if you live with family, you get what is known as a boarder's rate, which is less than the rate if you live on your own. Obviously it is just crazy and stupid. Certainly when you hear of provinces talking about encouraging families and whatever, I do not think it does much for that.

**Ms McGregor:** At a minimum, implement indexation of social assistance rates to the consumer price index to ensure that rates reflect more accurately the true cost of living.

**Mr Southern:** That is self-explanatory.

**Ms McGregor:** In many families, a non-disabled spouse acts as both a care giver and a wage earner. A rate increase to lessen strain on these families should be considered, if only because of the enormous costs spared the health care and social service system by the unpaid efforts of such couples. Maintaining benefits at unlivable levels is not only immoral, it is bad economics.

**Mr Dector:** I would like to add something here. One of the issues that was considered at great length by the previous government and is no doubt going to be looked at

again by this government is long-term-care reform. One of the elements of that reform is whether or not things like respite will be given to people who are in the position of taking care of, say, a spouse with Alzheimer's or something like that. People who are in that situation are saving the government enormous amounts of money that would be spent on institutional care for people, and that is part of what we are talking about here, measures that in the long run bring some cost but in the long run save a great deal of money.

**Ms McGregor:** Make accessibility a priority in the provision of affordable housing. PUSH welcomes the fact that the subsidy increases accorded under the FBA. However, the supply of affordable accessible accommodation is inadequate throughout the province. "Inadequate" is probably an inadequate word.

**Mr Southern:** Yes, it is a major problem for disabled people. Only a small number of persons with disabilities are as fortunate, or whatever word you want to use, to live in publicly supported housing. For example, I myself live in a co-op. I can just about afford to live in one of those.

**Mr Phillips:** You can go to my riding, John.

**Mr Southern:** I wish I could.

**Ms McGregor:** Improve the supports to employment program. We welcome the improvements already made in social assistance under STEP, but recipients must be allowed to keep a greater percentage of the income than they earn. Any comments?

**Mr Southern:** The STEP program could be a big advantage to a lot of people on social assistance but, in my opinion, it is certainly not a great help to disabled people. There are so many costs involved, as I pointed out earlier, with disabled people leaving social assistance. For example, just this month I left social assistance, and everyone would be saying, "Oh, that's good," but I am losing money. I am earning less money now than I was on the STEP program, but I am earning too much to be eligible for it.

Next month, as was pointed out the problem with the dental program, I have got to go to the dentist. I have no dental card left any more. It is going to cost me a lot, and I will really be out of pocket. I think that the benefits and the levels of the STEP program have certainly not been raised a lot more, but it is a step in the right direction, no pun intended.

**Mr Dector:** I would like to add something, and a practical example: An employer wanting to offer someone who uses an electric wheelchair a job—I gather everyone here is in favour of encouraging that sort of thing—in a position where, say, the wheelchair requires repairs on a regular basis. This is a very common situation. If the person is paid over a certain amount, he will lose all eligibility for FBA, say, \$10 an hour for a single person on disability. If they are paid \$8.50 an hour, they can retain their drug card and also continue to have the repairs paid for their wheelchair.

An employer is put in the position, and I am speaking from some experience, even with all the assistance available in the world from lawyers who have studied the social assistance system, of having to guess at what point he will be knee-



body off and that person will be actually in a worse situation than if he did not work at all. In our membership, we are talking about people who have been looking for a job for 10 and sometimes 20 years. It is intolerable.

**Mr Southern:** I will ask Carol if she could skip some of the other social assistance areas. Many people have depended on it and perhaps we could get to some of the other priorities like transportation.

**Ms McGregor:** I am going to turn the transportation matter over to Richard and let him proceed.

**Mr Dector:** PUSH is active in a group called Trans-Action. It is a coalition of groups concerned with accessible transportation. This is PUSH's position on some of the issues.

We want the new provincial government to fully commit to a fully accessible public transportation system, just as the preceding government did, and we are very hopeful that it is going to come.

We need to see adequate funding to ensure the projects outlined in the Minister of Transportation's November 1989 plan will be fully accessible to all Ontarians. That includes a fully accessible GO Transit system. Via Rail has been cut back considerably, as everyone knows. Via Rail, as it is and was in certain respects, was the most accessible transportation system in Canada.

In that regard, GO has to be improved, otherwise people are stuck in a situation where there is decreasing accessibility on the airlines because of deregulation, the intercity bus services are not accessible and the trains are being cut back, and what you are essentially saying is, "If you can't get to work, you have to stay at home."

**Mr Southern:** I just wanted to make a point on transportation. I heard of somebody just recently who was offered a job and could not take the job because he could not get to work by any reliable transportation.

**Mr Dector:** Yes, it is crazy. I was talking in quite technical terms, people being offered a job and telling the employer that they can start four days after the starting date because they need some time to arrange their wheelchairs. That does put you at somewhat of an employment disadvantage when you cannot take a job even when you are offered one.

The other thing is that the bus situation is so bad that I have had members say that they are going to use the bus service to come to a meeting, but it means they have to crawl up the stairs. It is unbelievable.

We want to see that the Let's Move projects in Metro, such as Spadina light rail transit and Sheppard, are fully accessible. Everyone has talked about making Sheppard fully accessible. We want to see that a reality. We want to see, as the minister has indicated, to ensure that the recommendations in the TTC Choices for the Future report are paid for. We need increased support for parallel services.

Again, we are asking for more and more money for different things, but parallel services means things like the elimination of regional cutbacks. In that case, people are at risk of losing their jobs or health care or education, because they cannot get there. There is some long-term cost for short-term gain.

**Mr Southern:** It is ridiculous. In the Peel region, for example, they are going to cut back on the parallel transit system and disabled people are expected to say, "I understand that you can't afford it." Damn it, if people cut back and slashed the TTC system by 50%, you would have heard a little bit more than, "Oh, well, they understand its cost," I tell you.

**Mr Dector:** Imagine if you had to book four days in advance to go in the subway, which is the current thing for the Wheel-Trans.

To establish and improve accessible public transport in rural areas: One of the lower cost alternatives here is community bus services. That is something that has been talked about. There is one pilot project in Metro. These are smaller buses on flexible schedules. They are buses that virtually anyone can use. They are either low-floor or they have ramps, you can go on with a stroller, you can go on if you are a senior citizen who uses a walker, and they are wheelchair accessible in some cases.

We are fully in support of those and we would like to see funding for that. We also would like to see funding for proper training of transit staff so they are aware of how to deal with people with certain types of disabilities, because there is some getting used to people. That is it for transportation.

1740

**Ms McGregor:** I would really like to really reinforce the transportation. I am one of these who happen to live in Peel. I ride the GO train every day and I cannot get home at night; I often have late-night meetings because people who are in this employment equity area are working in the day. I am trying to get home at 10 or 11 o'clock at night, and I am always having to take taxis from Clarkson up to Meadowvale, which is at Winston Churchill Boulevard and Highway 401, because we do not have commuter transit service up there yet. Not that it is accessible, but at least I have the dog and we can get up and down. But it is not the safest place to try to get around at night.

Our students up there are in great peril. I am going to talk about education because I have had quite a few phone calls from disabled students. Their education is in jeopardy, their future employment is in jeopardy, basically because of the transportation. They are also faced with costs substantially higher than those facing able-bodied students in the education area.

OSAP was introduced. It replaced vocational rehabilitation services funding of tuition. Students must apply for OSAP funding for tuition. They are also required, at the same time, to save out of their \$600-a-month pensions \$1,200 a year—a lot of people with disabilities are finding this very, very stringent—in order to match the donations by kind. There is no difference made between disabled students or able-bodied to go to university or college. You are treated the same. We want to be treated the same, but recognizing the fact that a person with a disability has a much higher cost of living. Our medical costs are higher, our transportation costs are higher, medications and just general living. It is much more expensive for us to even access.



By jeopardizing our services at university and college, we are creating great barriers to employment. As a person who is advocating for employment equity, I view this very seriously. I have students phoning and saying: "I think I'm going to have a nervous breakdown. I can't get my books. I'm not getting my educational materials on tape on time. The professors won't give me extensions." The accommodations are not there. The funding is going to the colleges and the universities, but our students are not getting the accommodations they need. They are just saying, "Will you keep fighting for us?" Yes, we will keep fighting, because equity in education has to be a prelude to employment equity.

We do feel, though, that the transportation cost in particular should perhaps be seen as an accommodation under the funding that is supplied to the colleges and universities for special-needs students. In the federal public service, the Human Resources Secretariat right now is treating transportation as an accommodation, and I do not see why our students could not have the same courtesy extended.

**Employment equity:** Obviously, for disabled people we feel this is a very crucial matter. Nationally, more than 171,000 persons with disabilities capable and available for work are unemployed. The cost of maintaining this number of people is more than \$2.2 billion per year. If these 171,000—this is based on the 1986 census; we will not know what the new census is until 1991-92—were employed at an average salary of \$20,000 per year, which is not very much, their contribution to the economy would be more than \$3.4 billion per year. Therefore, putting this enormous population of people who are more than willing to work into the active workforce would lift \$2.2 billion from government costs and add \$3.4 billion to the pre-exemption tax pool.

Ontario would be the single largest beneficiary of this tremendous boost to the economy. Therefore, Disabled People for Employment Equity and Persons United for Self-Help in Ontario recommend immediate introduction of mandatory employment equity legislation covering both the private and the public sectors. This was a commitment promised to us by the Liberal government at the NDP-Liberal coalition, and we are still waiting for this legislation.

**Mr Southern:** Every time I made a presentation in the past to this committee, one of the people on the committee at the time was Bob Mackenzie, and he always used to ask me about quotas and employment equity or whatever you want to call it. He always used to say how much he supported our call for it. Now he is the Minister of Labour, so let's see it.

**Ms McGregor:** We believe there should be more mainstream training and educational opportunities for persons with disabilities in the workplace and at community colleges and universities. We want to de-emphasize segregated training programs. Training remains the single most important issue for disabled people.

Persons with disabilities, just by the very nature of their disabilities, sometimes miss a great deal of time at school. They are not offered the same employment opportunities in the summer as their able-bodied counterparts.

Society has not seemed quite willing yet to hire a disabled student in a fast food place, for example. They come to job force unequipped with the skills that are necessary. We must provide that training that we feel is necessary. We have a generation out here that we have lost. We cannot afford to lose another generation of people who are disabled.

A special fund, we believe, should be set up to enable the provincial Human Resources Secretariat to identify systemic barriers to employment within the public service. The civil service accommodation fund that is administered by the provincial Human Resources Secretariat must be continued on a permanent basis to permit people with disabilities equal access to employment in the Ontario public service. The personal staff of the ministers' and Ministers' offices should also be covered by this program.

During the recent hiring, disabled people were discouraged. We managed to get two people in. Both those people required accommodation. Both those people had extreme difficulty getting accommodation. We feel that something must be addressed. We have good people, well qualified, out here for you, quite able to work. We require accommodation, we require equipment and perhaps some other needs. I think this affects their job performance when they cannot access this equipment, so I strongly urge you to consider this.

The provincial government must establish an additional accommodation fund for employers to whom accommodation would represent undue hardship as defined by the Human Rights Commission.

The province must provide extended health benefits, 100% maintenance cost for assistive devices and other equipment for persons with disabilities going from home to the workplace. This is a very cost-related thing.

I will let Richard close.

**Mr Dector:** This is going to sound terribly like a plea for funding ourselves, which it partly is. To enable disabled people to speak on their own behalf, significant sustained funding must be provided to advocacy and self-help groups. I am not just speaking of PUSH, I am speaking of People First, which represents people with developmental disabilities, Ontario Association of Deaf, the Disabled Women's Network, which barely has any staff, and of course our organizations.

A lot of people with disabilities who have been unemployed for a long time get involved in these groups as activists because they are concerned about a particular issue. They become volunteers, they represent us at particular issues and they often get their first job through us and then move on. Some of them are even working in the government now. The point is that it is a route for people. Not only are we trying to fulfil an advocacy function, but it is a route to employment and off FBA for a lot of people. A large number of our staff have come directly off FBA.

**Ms McGregor:** I must point out to you that funding for advocacy groups is not easy to come through four ministries. Because we are very political, a lot of foundations do not wish to be identified with some of the issues. When you take banks and put human rights complaints against them, and when you take the Minister of Employment



migration to court, foundations do not want to be seen doing side by side with you. The work we do is important. The issues we raise are important. They would not be if we were not here doing this. This is the type of work that disabled people are doing, so we urge you to consider it.

**Mr Southern:** I have a little story just before we close together. At the last presentation to the committee I read an issue that was in the newspaper, and when I got to the meeting, an NDP researcher said, "Wow, we thought it was great in the NDP caucus office. We saw you on TV. It was fantastic." The issue was that MPPs from our own get a living allowance for an apartment in town, whatever it is, \$1,000 a month or something like that. That is not a living allowance for an apartment. The average of somebody on family benefits is \$720. The story is the same and that analogy can still be used. I do not know if everybody in the NDP caucus office will be jump-around still, but anyway, there you go.

**Mr Dector:** One other thing I would like to point out is that the kind of funding that is often given to groups like this is project funding. Everyone is happy if we are working on certain types of issues and not so happy if we are working on others.

In fairness, no matter who the government is, I think there should be some core funding to groups like this so that the agenda can be set by the membership. We have a democratic structure; most of the groups do. Let the membership set what we are going to work on. Last year, the biggest concern directly from the grass roots was transportation. This year, transportation is a big concern but people are really concerned about getting jobs. Maybe they are more optimistic or something, but there does seem to be a push for that. I would like to see more freedom given to the groups to try to work on what people identify to us. Thank you for your attention.

**Mr Phillips:** First, I think your groups have advanced the cause in the last 10 years enormously. You do provide a benefit to the community. Just as one politician who has been lobbied by you, you are probably aware you have made a big impact; not as much as you would like but you have made an impact.

I have three questions. One is in the area of transportation. Assuming that there are finite dollars, what is your top priority, do you think, province-wide? We tend to get stuck on that topic, those of us from Metro Toronto, and look at Metro Toronto, but I have this intuition that there are some communities where there is not even an adequate parallel service. That is my first question, if we can look at it province-wide.

The second thing is on the accommodation fund. I realize it is carefully worded in your document to say "where there is undue hardship." My own concern, when I was involved in it and had some responsibility, was that that has been carefully managed or employers, when the fund is used, can say, "Well, I can't hire someone because I can't get the support." I always had questions about the fund in the private sector, because it felt it may be a limitation. I

would like your comment on that. I realize it is carefully worded. I can see the accommodation fund in the public sector because we are the employer, but in the private sector, as I say, I worry that it becomes a limitation.

The third one is on the STEP program. Is the issue there that the STEP program is in concept the right thing, but for persons with disabilities it is not properly structured to take into account the real costs that are associated with employment, and therefore one should be looking at the details of the STEP program as it applies to persons with disabilities?

**Mr Southern:** The first one on transportation: I do not like to be pulled into a "let's prioritize this list" thing. At first glance, you might say, "There's no transportation in Rainy River," but we need to deal with both rural and city issues. If you make, for example, the system in Toronto more accessible, the TTC, it can save you a lot of money which could be better spent in other areas. I think the answer is that you have to do both. That would be a proper way to spend the funds. I do not think you can just say, "Let's establish transportation in an area where there is none," and just leave the public transportation in the major cities inaccessible. Both have to happen, and I think if you do both you will save yourself some dollars.

**Mr Dector:** I agree with John. It is very difficult to prioritize, even if we had some of the people here who have been working on transportation issues. One point to make, though, is that, again, as in buildings and in other situations of accommodation, if the idea of accommodation is in the beginning of the planning process, the costs are minimal. We are talking—the studies in the States—1% to 2% additional cost to buildings.

Sheppard is a clear case where it should be accessible from the start. One of the mistakes made, I think, is the presumption that escalators are cheaper than elevators, which is not always true and is quite often not true. If you look at the design of the subway system, if we had elevators a lot more people would be able to use it. The increase in costs of continually providing parallel services—and we support increased funding to parallel services—partly is that the mainstream system is not accessible. It is achievable. There are low-floor streetcars. There are buses in use in England and in other places on which you can take a wheelchair that are in use on conventional routes. There are ways to do these things without massive increases in costs if there is a real commitment to accessibility. That is what we are hoping for from the government.

**Ms McGregor:** Disabled people are having their transportation cut back. In Toronto Mr Tonks came out and announced that disabled people had to get used to less. They are already getting less.

**Mr Southern:** They just have to get used to it.

**Ms McGregor:** They have to get more used to getting less, or something like this. We have members who could not even get to minister's receptions.

**Mr Dector:** We had a member who could not come today.

**Mr Southern:** That is right.



**Ms McGregor:** The co-chair of our organization was unable to make three different receptions in the fall under the new government. We simply cannot get her there. We got her to the community action awards, but we could not get her home. That is wonderful. How are we going to get her home when she is almost a quadriplegic?

Transportation is a very big thing. I am going to talk about the accommodation fund a little with you. The community has been looking at the costs of accommodation, trying to really look at how business is going to react to that cost. We do not feel it should just be given carte blanche to companies who certainly can afford to pay that cost. We believe that when there is a separate independent commission, that commission will examine whether that employer is committed to employment equity, whether the representation rates of a community are there, and perhaps even some tax incentives.

Everyone has this great big myth that it is going to cost an arm and a leg to hire a disabled person. In many cases, it may not. Most of the buildings have become more accessible. It may be a matter of just lifting up a desk and putting it on a couple of blocks for a wheelchair person. But we are getting discriminated against based on disability, and we are getting very concerned, the way employment is going. We have employers saying, now that they have hired a few guys in a chair: "That's great. We'll take the guys in the wheelchairs, the paraplegics, because they look good. But don't give me the blind guys, don't give me the deaf people, because we've got to get interpreters. Certainly not the cerebral palsied, because look how they look. They can't talk properly, even though their brain works."

We are facing this discrimination. We wanted something that perhaps might encourage the employers and business to hire persons with disabilities. The accommodation fund is something we are working on. We certainly have not come up with all the details. We have enough time fighting with business, never mind trying to work with them right now. We are not the best of friends.

In the long term, we feel confident that probably with the federal review there may be some changes in the federal act, and hopefully in the province we are going to get the provincial legislation. It is going to have a bearing on the economy. It is up to members of the government, as well as the community, to examine ways to make this accommodation issue a little bit less frightening to everyone and certainly more accessible for the community to have access to. We will not back down on certain fighting for their jobs. John, do you want to answer on the STEP?

1800

**Mr Southern:** Yes. Somebody asked of another presentation what you were allowed to retain under welfare. On family benefits under the STEP program you can retain \$160, the full dollar amount. Then after that it is 20% of every dollar earned up to a certain level, and then you are cut off, all depending on your circumstances and costs and whatever. The cutoff level changes. That is one reason why obviously it is difficult for disabled people. The levels should be higher because their costs are higher.

One recommendation that was in the income maintenance group brief which would certainly improve STEP program for disabled people—single mothers under the STEP program are allowed to put the costs of day care against their earnings and it would help if disabled people were allowed to put some of the extra costs. I know, for example, a lot of people who use crutches to get around. They have a lot of wear and tear on clothing and stuff like that. If they could put some of those costs against their earnings, it would really give the STEP program some meaning for disabled people.

**Mr Dector:** Yes, I would like to second that. In the example that I was giving, the issue there I think is whether or not the program could be modified in such a way that you could keep your benefits for equipment that you need to function while you are working. That was the point at which this person's wage could go up, or whether it would make the transition to work.

Maybe one last thing: If you are looking for money to pay for all this, a couple of things—

**Mr Phillips:** This is a first.

**Mr Dector:** One is, we are fully against any user charges on the drug card, but part of the enormous costs of the drug card is the fact that there is massive overprescription of tranquilizers to people with disabilities. This is a real complaint from our members. If there is a way to look at that, and there are going to be some studies released that soon, that is a real issue. Part of that is cosmetic. Someone who has cerebral palsy, who without a heavy tranquilizer dose will be perfectly functional but will drool a bit, is encouraged to take as many tranquilizers as it takes to stop the drooling, but it renders them somewhat disabled all the time. It is a cosmetic issue and there is real, genuine overprescription.

Another thing I would like to point out—and I do not mean to pick a quarrel with the doctors, as my brother is a doctor and so is my father—the total \$2.2 billion that is required to sustain those 171,000 people is about half of the billing to the Ontario health care system by doctors each year. So there is probably some room there to find some of this money. I guess what we are saying is that it is a question of spending priorities rather than a question of whether there is money there.

**Mr B. Ward:** Just a quick question on the assistive devices program: How do you find the bureaucracy deals with that program?

**Mr Dector:** Do you want to deal with that, John?

**Mr Southern:** The bureaucracy with the assistive devices program is not the worst thing. I think the problem with it is that there is not enough money in the program to provide people with what they need. That is the main problem. Of course, there are still some items that are not available to people up to the age of 24. After that, you are not eligible for the program. There is still that age limit on some components of the program, which we would obviously like to see eradicated. But then I just do not understand why they do not put more money into the assistive devices program, because I think the benefits of the program could be enormous if they would put enough money



to allow people to become independent and to acquire employment and live full lives; the benefits to society even more so, never mind as regards social-wise.

**Mr Christopherson:** Thanks to the presenters for a most meaningful presentation. I have a quick question on the transportation issue of accessibility and the parallel system, and perhaps some comments on exactly what the vision of PUSH is on what the system would look like when it is finished.

If the main systems are fully accessible, then is it a parallel system that is required in addition, or are there special needs there? I know when I was down in Atlanta, Georgia, about a year and a half ago there was a demonstration down there that hit most of the North American newspapers in fact, where there were sit-ins, I believe, about the whole question of accessibility.

There seemed to be an entirely different approach down there than what I saw in Canada. Then I attended a conference here in Canada and Beryl Potter had some difficulty or some differences of opinion with certain groups at here in Metro on the approach. I do not pretend to be an expert in fully understanding all of that, although my background is city and regional council, where you deal with the transportation issue. I would appreciate if you could just clarify a little bit for me how you see all that coming together.

**Mr Southern:** As I pointed out earlier, I think the two systems are definitely necessary. There are people who always need door-to-door transportation. I think both systems could support each other. I know there are wheelchair users who cannot get all the way to the subway system or to the buses on their own because they live maybe five minutes or five minutes from the main intersection who would need some kind of transportation to get them at that point there and then they could switch to the regular system, which would take an awful lot of burden off parallel systems.

In the best of all possible worlds, I think we need both. That is what we are lobbying for. There are people who really need different kinds of transportation. Also, I think that we need is not just vehicles that are capable of carrying wheelchairs, and it is not just vans, but we are lobbying also for some accessible taxis in Ontario. If they want to decide to go out and have dinner, people should be able to get a cab and go out and have dinner. They should not have to, as Richard pointed out, book four days in advance. Do you know what you want to do next Saturday? I do not.

It is a very broad issue, transportation. You need a lot of things. I do think we need both systems and we do need an accessible cab system as well.

**Ms McGregor:** I think the demonstrations you are referring to in the United States were related to the Americans with Disabilities Act. The veterans who had been disabled from the Vietnam war, together with the disabled population, lobbied very hard to get this bill through.

There is a different attitude now in the United States on disability. There is no question of it. I was in the United States just to Florida in October. I did not feel disabled there. My dog and I were granted access. It was quite a change for me for taxicabs. I have to go to court again in March. I came back after having a lovely week just to sort of recoup myself. The first day back it was pouring rain and I am with Mr Scott from the city at a meeting, and he could not get a cab for me. He argued with this guy for 15 minutes as to why he would not take me. I thought: "That's nice. Let someone else do it for a change."

**Mr Phillips:** That is just unbelievable.

**Mr Southern:** Sometimes if we are in a hurry to get somewhere, we say to Carol, "Hide your dog while we get a cab" and then pull the dog out. We have to do that.

**Ms McGregor:** But I have to go home every night. I am at these GO stations and we are getting quite a rash of violent crime out there. When I cannot get people to pick me up, I get very upset. I get read as to why dogs—you know, "God is going to come down and kill all the dogs." So I have to pay \$20 and listen to that for another half an hour. But if we complain about services, you must realize that very often we are denied the services even more, and I expect I will be in March. I probably will.

**Mr Phillips:** You should just be relentless on that one.

**Ms McGregor:** I refuse to. I am going after them.

**Mr Dector:** If you bring them to the Metro licensing commission, there is a roadblock that Metro Toronto does not have an accessible taxi service. They exist in some of the smaller communities. We are in favour of taxis that can be used both by disabled people and by able-bodied people. There is no reason. That is partly a funding question, but it is largely a regulatory question.

Again with the buses, there are intercity buses that you can take a wheelchair on. I believe that the problem has to do with the length of the buses. There probably is some funding subsidy required, but again it is largely a regulatory issue.

There are a lot of things that can be done to change these things. These are not insurmountable obstacles.

**The Chair:** I would like to thank you for coming and making your submission. This committee will reconvene at 10 o'clock Monday morning.

The committee adjourned at 1810.

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# **Legislative Assembly of Ontario**

1st Session, 35th Parliament

## **Official Report of Debates (Hansard)**

Monday 28 January 1991

**Standing committee on  
Finance and economic affairs**

**Pre-budget consultations**

Chair: Jim Wiseman  
Clerk: Todd Decker

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Première session, 35<sup>e</sup> législature

## **Journal des débats (Hansard)**

Le lundi 28 janvier 1991

**Comité permanent des affaires  
économiques et financières**

**Consultations prébudgétaires**

Président : Jim Wiseman  
Greffier : Todd Decker

Publié par l'Assemblée législative de l'Ontario  
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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday 28 January 1991

The committee met at 1007 in committee room 2.

### PRE-BUDGET CONSULTATION

#### ONTARIO ROAD BUILDERS' ASSOCIATION

**The Chair:** I am going to open the proceedings. Welcome back, everybody. Our first presenter is the Ontario Road Builders' Association: Arthur Ryan, the executive director; Leo McArthur, the president. If you gentlemen are ready, could you come forward, please? Welcome to standing committee on finance and economic affairs.

**Mr Ryan:** What we would like to do, Mr Chairman, with your concurrence, is to read through the brief which is presented to you, and then we would like to answer any questions you may have once we have finished.

#### Introduction:

The Ontario Road Builders' Association represents virtually all of the major firms involved in constructing and maintaining Ontario's provincial highways and municipal roads. The association was formed in 1927 and now comprises more than 170 companies in over 50 communities across Ontario. Our members represent a large labour-intensive industry, both union and non-union, working in an industry which has a substantial impact on the quality of life of Ontarians and on the economic viability of the province. We welcome this opportunity to present our views to the standing committee on finance and economic affairs and trust some of our concerns will be addressed in your recommendations to the Legislature.

#### Economic development:

The road building industry is an important segment of the Ontario construction industry, which latter is the province's biggest industry, its largest employer, Canadian-owned largely by small entrepreneurs, pays the highest wages and is the province's largest taxpayer. These facts underscore our industry to have a substantial impact on all segments of our society.

As we move cautiously into 1991, it is apparent that external factors will have a significant impact on the Ontario economy. Energy prices, interest and exchange rates, war in the Middle East are all factors which will have a serious effect on an economy already facing recession. The economic indicators for 1991, be it real growth, consumer spending, housing starts, business investment and employment, are all negative and are continuing the downward spiral evident in the latter half of 1990. Treasury will be hard pressed to determine the necessary funding priorities that best address these major concerns.

#### Employment:

We strongly believe that job creation is the most significant step that a provincial government can take to provide impetus to the economy and instil confidence in the people.

Construction and maintenance of roads can increase Ontario's job creation program and reduce unemployment

levels. Roadbuilding is a very labour-intensive industry. It has been stated that the job creation impact of road expenditures is second only to that of the housing expenditures. In addition, there are accompanying payoffs in tax returns, indirect job creation and decreases in the cost of social safety nets.

Road works have an added multiplier effect of 1.85 in triggering other job-creating expenditures within our economy. The unemployment rate is currently forecast to rise from 6.1% in 1990 to 7.3% in 1991. In northern Ontario, we believe these statistics will be substantially worse.

#### Safety and social services:

Aside from compelling economic facts, there are a number of safety and social arguments which may be made for ensuring that the road system in Ontario is maintained at an optimum level. In 1988, Ontario introduced amendments to the Highway Traffic Act which more fully supported the National Safety Code. The NSC will achieve nationwide uniformity in safety standards. It aims to clearly enhance highway safety, which can best be achieved on unclogged, free-moving road networks.

Many of the day-to-day services that the people of Ontario have come to rely on are major users of the road system. Municipal transit systems, intercity bus services, school buses, police, fire protection, ambulances, hospital services and other emergency vehicles are but a few of the social services that require an efficient road network. We cannot overemphasize the importance of a well-maintained road system for all social services in the province. Free-moving traffic eliminates congestion, reduces pollution and individual stress.

#### Tourism:

Tourism is an important sector of the Ontario economy accounting for more than 4% of Ontario jobs. Tourism spending in the province, estimated as being in excess of \$9 billion, must be maintained. A first-class, efficient road network is absolutely vital to the tourism industry. We must have a direct, uncongested road system which can accommodate travellers and not subject them to stressful delays, traffic jams and poor roads. Approximately 80% of all tourists travel by road in Ontario.

#### Good roads mean good business:

Roads and highways have always played an important role in the economic and regional development, especially in northern and eastern Ontario, where longer distances must be travelled. Retailers, agricultural producers, manufacturers and countless other commercial enterprises in cities and towns across Ontario depend on this network, particularly as just-in-time inventory management practices are being widely adopted.

The value of commercial shipments using our road system, for example, is greater than that carried by all other modes of transportation combined. Consider that



approximately 100 million tonnes of freight are shipped across Ontario roads each year, more than \$12-billion worth of goods arrive via road annually in Metropolitan Toronto alone and goods exported from Ontario via truck are valued at over \$36 billion per year.

If business and industry are to remain competitive, they must have access to direct, uncongested and well-maintained roads, roads that will allow them to transport goods quickly and efficiently. Highways, roads and bridges are all part of the vital transportation network that we rely on to keep Ontario's economy moving ahead.

Carefully constructed over the past century, our road and highway systems represent an investment of more than \$23 billion. Together they serve the needs of business, industry and the general public, providing important surface links for millions of cars, trucks, buses and other vehicles.

In terms of our specific recommendations, long-term planning:

We strongly support the current government's multi-year approach to government planning. Over the years, we have urged previous governments to develop at least a five-year plan for provincial highway funding needs and recommended close co-operation with the municipalities to determine their long-term requirements. As general contractors, the ability to plan for capital and human resources over at least a five-year span would obviously stabilize the industry and would have substantial cost benefits to the taxpayer.

The previous government in some way attempted to address this issue when it announced its \$2-billion transportation enhancement program, which was scheduled over five years. We urge you to recommend continuation of the scheduled time frame of this program and recommend that the program be formally approved by the current government. We would stress at this time, however, that the transportation enhancement program still does not meet the funding requirements necessary to maintain our current infrastructure at the optimum level. Recent studies show that current rehabilitation expenditures are only meeting 75% of the needs.

#### Funding—capitalization of highway infrastructure:

As are most organizations, we are concerned about current deficits, both at the provincial and federal levels. However, we strongly believe that an increase in the so-called deficit resulting from capital expenditures differs from deficit spending resulting from operating costs. Normal industry accounting practice treats assets as balance sheet items which do not affect operating lines of credit.

We believe that the government should consider defining new highway expenditures on the same basis. The public accounts currently show the investment in water treatment and waste control facilities in this manner. These costs are amortized over a period of years. Why not treat all new highway infrastructure spending in the same manner? We would be willing to discuss this item in more detail with Treasury at its convenience.

#### Dedicated funding:

During the past couple of years a number of provincial governments have established a dedicated funding mecha-

nism to fund their highway programs. These governments have taken a number of cents per litre from their gasoline tax revenues and specifically allocated these funds to be used on their highway programs. We suggest to Treasury that it consider a similar approach in the province of Ontario.

The current fluctuation in gasoline prices presents an opportunity for the government to dedicate one or two cents a litre from its gas revenues to fund a new highway program. One cent a litre in the province of Ontario generates \$100 million on an annual basis. We present the above two recommendations to the Treasurer because we believe that some form of creative financing arrangement must be established by all levels of government if we are ever to meet the ever-increasing costs of new infrastructure and its timely maintenance and renewal.

#### Federal participation:

The government's Agenda for People emphasized its commitment to build a stronger northern Ontario. One of these commitments was that Ontario would undertake negotiations with Ottawa to proceed with the four-laning of the Trans-Canada Highway across the north and to improve this vital transportation network corridor. We strongly support this approach.

The Transportation Association of Canada, TAC, has just completed a study to establish a national highway policy for Canada. Phase 3 of this study, which has just actually been completed, is tackling the funding mechanisms for this new highway system. We urge the Ontario government to become an active participant in this process and to participate in these discussions with the federal government relative to this particular report.

Over the past number of years, it seems that more and more provinces have received funding for maintenance operations on the Trans-Canada system which traverses the province. Ontario has received no part of this revenue. We urge the committee to request the Treasurer to approach the federal Minister of Transport and to press for at least some shared funding to develop a stronger northern Ontario.

In conclusion, in recent years the Ontario government has been neglecting road expenditures to an extent that puts the entire road system in jeopardy of becoming inadequate to the needs of the province. We must ensure that sufficient funds are allocated to maintain the infrastructure which has been created in this province. Our road system should not deteriorate further.

Ontario is the engine of the Canadian economy. When firing on all cylinders it drives investment, consumes resources, demands more services and creates new jobs. Tragically, we are starving the engine of fuel with a traffic-choked system that is declining rapidly because of insufficient attention. We urge you to reverse the trend.

**Mrs Sullivan:** I am interested in your view that it is important to proceed with the four-laning of the Trans-Canada Highway across northern Ontario. I wonder if you would have a cost estimate on that proposal.

**Mr Ryan:** The cost varies depending on the extent of the work done, but it is many billions of dollars, there is



question about that. One of our problems with that is that a government initiative, it realistically—and we as an association would like to have it in place, but we do not have the funding available for that certainly in a reasonable time frame.

**Mr McArthur:** I would also believe that back in 1985 the Ministry of Transportation did a study on the cost of, I guess, twinning that highway, and maybe those numbers could be available through MOT. That was done, and then what you would have to do is just update it to the current level. I happen to kind of remember a number, but I do not want to say it because I am not just too sure really whether it was the specific number, but in 1985 it was done. But that was very, very substantial.

**The Chair:** Any other questions for the presenters? Do you have any estimation of how much tax is taken out of Ontario through the gasoline taxes at the federal level?

**Mr Ryan:** I am not sure of the exact figures at the federal level, no. I could give you the figures provincially, in terms of the revenues that come into the province from the highway system, which are the provincial gasoline taxes, licences and things of that nature, they are way in excess of the actual Ministry of Transportation's budget. Close to \$1.8 billion comes in in total revenues, which is the result of motorist and trucking expenditures. In terms of the total payments out from the ministry, it is something like \$300,000 less than that, \$1.5 million. In terms of the federal excise taxes, I would not know that figure offhand.

**Mr Sterling:** Is there any trend in the United States towards toll roads? Are states backing away from that idea, or are they implementing more and more toll roads in the United States at this time?

**Mr Ryan:** Actually, they are looking at one now in California. As you know, there is some private financing. The United States is looking at all sorts of creative financing, which includes toll roads, but it is also looking at private participation in the highway system. In other words, as you do in the private sector commercial building, you build the whole package and then you finance it through your own individual tolls at a private level. That is what they are looking at in California at this time. But the toll road system in the United States has always worked very well.

One of the problems we have in Canada—and this is Canada as a whole, not just the province of Ontario—is that we spend less money in Canada per capita for our road system than any country, literally, in the western world, substantially less than the United States; substantially less than England, France and Germany. We do not pay attention to our highway system in this country, and Ontario is obviously guilty of that as well, as other countries do.

Some of the recommendations we make, and we have done this to previous governments—we understand that because the requirement is so great in this province at this time, there will have to be some different kind of financing for the transportation network to realistically get the job done within a reasonable time frame. Just Highway 407 itself, which has been committed over a long-term time

frame, the way the recession is going now and the demands that are going to be made, we can see that there will be so much pressure for dollars that some other funding mechanism has to come into the system and toll roads do have a place.

When you are looking at a toll road system, the first thing you look at apparently is to make sure there is alternative access, and in terms of Highway 407 itself, the new highway which will traverse the province and which will replace, in effect, Highway 401, you could actually toll that because you do have an alternative. In other words, if you did not want to pay the toll, you could use Highway 401. This is a very valid point for the toll roads and that is one of the things the United States watches very carefully. Looking at the plans for Highway 407, that particular highway does lend itself to a toll road system.

**Mr Sterling:** Do they pay for themselves?

**Mr Ryan:** I think historically in Canada, when you look at Quebec and places like that, it depends how well they are managed. I think one of the problems is the cost-effectiveness of collecting tolls and the slowdown, the time of the lineups. As I say, it is all part of not having an alternative. As long as it is moving quickly and you have a good collection system, they certainly pay for themselves, no question.

**Mr McArthur:** I think we understand that in the United States, I guess, some of those toll roads are very marginal, but other toll roads where you have a lot of traffic seem to pay for themselves. But I guess just as a general statement that probably—and I think this is the feeling of your own ministry staff people—it is questionable as to whether they really do pay for themselves. But the funds are really kind of available to help build the program.

Undoubtedly, in some situations they may have to require extra funds to be picked up somewhere along the way, but I think you would find that it would be tough to have 100% of it. So maybe it would end up being kind of recovered because of the fact that it is tough to do that if you do not have the traffic.

1020

**Mr Stockwell:** I have great interest in alternative financing, in particular for transportation improvements. I know in the Metro Toronto region when they talk about any kind of subway or light rail transit extension or improvement, particularly the Sheppard subway line, they talk about participation from the private sector, basically selling density rights to develop the subway lines themselves. I am not certain if it could work in the scenario you have painted, but clearly if Highway 407 does cut through the greater Toronto area, there could be value in selling density rights off abutting that package.

Potentially, I guess, if the development industry wanted to get involved, that is another alternative way you could use to generate revenue to pay for the construction. I am not certain how much it would do, but clearly, in North York along the Sheppard line from Yonge to Victoria Park it is a considerable amount of money. I do not know if that avenue has ever been explored. If it has and has not



panned out, I can understand because of the cost. Certainly it is something that I think you should look at. Clearly in the rural areas it is just not going to be much of a density improvement, but really in the GTA, if you could sell greater density rights for the development of a highway, I am confident you would collect a considerable amount more money.

**The Chair:** Are there any other questions? I would like to thank you for your presentation this morning. Thank you for coming.

#### ORGANIZATION

**Mr Phillips:** Before we get into it, I do not see the Treasurer on this schedule here.

**The Chair:** That is up to the committee to decide when it would like to hear him. I was going to do it at the end, but since you brought it up now, we will deal with it now. We have Thursday 31 January, 12:30 to 1:30; Friday 1 February, 8:30 to 9:30 in the morning, and Wednesday 6 February at 5 pm. Now, Wednesday 6 February at 5 pm leaves the writing crew behind a little—no time at all—so for the writing crew either of the first two would be preferable.

**Mr Phillips:** The key for me is just making sure that the third-quarter results are out. I gather they will be out before he appears here.

**The Chair:** You know as much about that at this point as I do. All I have heard is what we were told from the beginning; that is, that they should be out this week some time.

**Mr Phillips:** That is what they say in the media, but I do not know.

**Mr Stockwell:** Has that been confirmed by the Treasurer's office?

**The Chair:** It has not been confirmed to me.

**Mr Stockwell:** Maybe you could try to confirm it.

**The Chair:** To nail it down?

**Mr Stockwell:** Yes, I would really agree with the member. I think it is more important that we meet with him after those third-quarter numbers are released.

**The Chair:** If he were to come on Thursday or Friday, we could ask him.

**Mr Stockwell:** Yes, but that is a little more difficult. I would rather have an opportunity to review them and then ask some penetrating questions, rather than ask my penetrating questions while I am reviewing them.

**Mrs Sullivan:** We will wait for that occasion.

**The Chair:** Some of us are still waiting for penetrating questions.

**Mr Stockwell:** Some of us are still waiting for a government, too.

**The Chair:** You mean in Ottawa? We could have lunch sent in on the 31st for the meeting from 12:30 to 1:30. What are the wishes of the committee? I think we have probably eliminated—because the writers cannot do it on 6 February. What about Thursday or Friday?

**Mr Phillips:** It is a good day for me. I do not know either day is fine. The only criterion is that the results are out, that is all.

**The Chair:** Thursday? Do I have a consensus Thursday, 12:30 to 1:30? Okay, we will invite the Treasurer to come Thursday 12:30 to 1:30.

There is another item of business. As you all know, I invited the governor of the Bank of Canada to come and speak with us. I am going to try to do this without really being too facetious, but he feels so bad about not being able to come that he has offered to send a designated person to meet with part of the committee or the subcommittee to give us some information. The reason he has given for this is that the world hangs on everything he says and he has an effect on the markets and everything, so he would rather give his projections and his information in camera to a select group so that it does not become a media or a public event. Does the subcommittee want to meet with this designated person? When do we want to do it if we want to do it? Would anyone like to comment?

**Mrs Sullivan:** It seems to me that this kind of information, given that these are public hearings, any information that will be coming from the governor ought to be considered in terms of being a part of public hearings and not an in camera situation. Also, the entire committee should be participating in hearing the presentation. At the end, all, the entire committee will be involved in writing a report at the end. I wonder if the information that he is likely to provide in terms of projections and so on is of such concern that the people of Ontario should not be hearing it.

**Mr White:** I would like to concur with Mrs Sullivan. I cannot see why our government should have standards of openness and honesty and candour and expect anything else of another level of government. Surely the hearings should be open not only to the full committee but also to the public.

**The Chair:** We are already stuck with the position where they have said they will not come to do it publicly. What they have indicated is that the information that they have requested from them can be made public. If I boil it down to the correct assumption, it is that we are constrained to having him either come and give part of the group some information or not come at all. I think those are the choices.

**Mr Jamison:** Our ability to evaluate and establish a report could be enhanced by listening to the Bank of Canada delegates here. I would suggest that we gather information as well as we can. We understand that there is going to be some difficulty in how it is going to be presented, but I think that the information is going to be important and we should make every attempt to obtain it.

**The Chair:** Do I take it that you would endorse the designated person coming and speaking to the subcommittee?

**Mr Stockwell:** I think we should probably spend a little more time talking to our staff and trying to get revenue projections rather than worrying about a senior level of government's report to this committee. We probably might have a little more success cleaning up our own house and getting revenue projection that will probably



ve a greater impact on our recommendations to the government than having a designate from the Bank of Canada coming in, in my opinion.

It seems to me we have a little more clout, considering there are a considerable number of members here who sit on the government side, to get that kind of information. Frankly, I am kind of shocked that there seems to be a bit of concern here that this gentleman is not showing up when there was little, if any, concern about getting our own revenue projections, for goodness' sake.

Let's become a little more consistent. If we are going to spend a little bit of time and send out snooty letters to the federal government, maybe we could send the same snooty letters to our own bureaucrats and ask them to comment on preliminary revenue projections. Let's be a little more consistent in dealing with those people we would like to hear deputations from.

**The Chair:** Given that those letters came from me, I object to the comment "snooty." They were not snooty; they were polite requests for information that I believe and the committee has believed is necessary for this committee to be able to make proper projections in the long run for what is going to happen in Ontario.

**Mr Stockwell:** Maybe the letters were not snooty, Mr Chairman. I will withdraw that. But certainly your comments to date at this committee have been.

**The Chair:** Up to this point, it becomes very difficult for this committee to go into pre-budgetary consultation and recommendation, given that we do not know for sure the answer to two questions. The most important question is will the Bank of Canada allow the Canadian dollar to float with respect to market forces? I think that is a very important question that we need to have answered, because that has a great deal of impact on what is going to happen in terms of revenue coming in and in terms of borrowing and when we make our deliberations and make the recommendations to the Treasurer.

30

**Mr Sutherland:** I would suggest that if the Bank of Canada people do not want to provide this information to the entire committee in a public forum, then we just take the information they provide and we as a committee interpret what we feel is the meaning of the information they provided, since they do not want to give an explanation of it to the open committee.

**Mr Phillips:** I do not think we can deal with it in private, and I think we should say that we are a public committee and that whatever they can provide to us in public we will take, although I am concerned that we still do not have a revenue estimate. I have said in the House that I believed, for this fiscal year, that the previous Treasurer's revenue estimates are more accurate than the current Treasurer's estimates. I am looking forward to seeing the numbers, but I do think we need to know what our revenue estimates are for this year and next year, even more important than the dollar, even more important than the interest rates. I would expect that is what the Treasurer will bring us when he comes.

**The Chair:** I take it yours is a no vote?

**Mr Phillips:** Absolutely.

**Mr Kwinter:** I am intrigued by the offer. It seems to me that anything that the governor of the Bank of Canada had to say he has been saying to the federal politicians, and I think there may be some misreading into this that he is going to come and tell us things that he does not want to be public. It seems to me that would put him in an absolutely untenable position. The minute he comes and does that, someone is going to know about it, and if the word got out that the governor of the Bank of Canada was telling a committee in camera things that he does not dare tell the public, as I say, that would be an untenable position.

It seems to me that what they are really saying is that they do not, as a matter of policy, want to come before a provincial standing committee of the Legislature, but "If you want to meet in camera, we will sit and talk with you." But I would not read into it that you are going to get information that they will not share with anyone else. I think it is just a matter of saying, "If we come for you, we're going to come for everybody, but if you want to talk to us, we will come just as long as it is not in a public forum." If that is the case, then I do not see any great value in having them come.

**The Chair:** Are there any other comments? I have so far, by consensus, that if he will not speak to the committee in public, then he need not come. Okay? Then we will transmit that information to them.

**Mr Stockwell:** Can we not have a vote of some kind? Can we not vote or is this just consensus?

**The Chair:** Well, I have got—  
Interjection.

**Mr Stockwell:** We do not vote? Okay. Thank you.

**The Chair:** I asked if there is a consensus. If you would like a vote, I will ask people.

**Mr Stockwell:** I just wanted to know if there was ever a vote at the end.

**The Chair:** There was no motion.

**Mr Stockwell:** Okay.

AJAX PUBLIC LIBRARY  
ADMINISTRATORS OF  
MEDIUM PUBLIC LIBRARIES OF ONTARIO

**The Chair:** Our next presenters are from the Ajax Public Library, Geoffrey Nie, chief executive officer, and Jane Kirkpatrick, chairperson of the Association of Medium Public Libraries of Ontario. Welcome to the hearings, if you would like to begin.

**Mr Nie:** Mr Wiseman, members of the finance and economics committee, thank you for giving us this opportunity to speak to you about provincial funding levels for public libraries in Ontario. I believe that Mr Decker has handed out a copy of One Place to Look: The Ontario Public Library Strategic Plan to the members of the committee and a copy of the attachments to my presentation. Mr Decker also has a supply of the presentation for you to read at a later time.

My name is Geoff Nie. I am the chief executive officer and chief librarian of the Ajax Public Library. With me



today is Jane Kirkpatrick, chairperson of the Association of Medium Public Libraries of Ontario, which is an organization representing public libraries in Ontario that serve communities with populations between 10,000 and 100,000 people. AMPLO represents 89 library boards serving 30% of the population of Ontario.

Our purpose today is to make two points about the level of support provided by the province for its public libraries. First, provincial support for public libraries as a percentage of the total cost of library service in Ontario has been reduced dramatically in the past 10 years. Second, the formula used to calculate the base per-household grant for public libraries is inequitable.

What is a public library in the 1990s? It is more than a place to go for a good read or a place to send your kids on Saturday afternoon to the film program. Today's public libraries serve the information needs of a diverse community by providing information and assistance to all its residents regardless of age, mobility, education, ethnicity or economic background.

In order to address the information needs of our users, public libraries are confronted with a number of challenges. Some of these are as follows:

The arrival of new Canadians in what were formerly primarily Anglo-Saxon communities. For example, some 30 libraries across Ontario have recently formed a multicultural services co-operative to ensure that collections in a range of languages will be available to library users whose language of first choice is neither English nor French.

The need to provide access for the physically and developmentally impaired user is another area of increasing demand. To address this need the Scarborough Public Library has recently introduced a collection of Braille children's books in Chinese.

The impact of technology has created a third issue. It is predicted that by the year 2000, 25% of all data will be available only in electronic form. The Brampton Public Library was the first public library in Ontario to provide dial-up access to its database for any client who has a personal computer and modem.

Shifts in our economic base have included plant closures and downsizing in manufacturing and industry. To address the community need created when the Goodyear plant closed several years ago in Etobicoke, the Etobicoke Public Library established a help service for its laid-off workers.

Finally, there is the tragedy of those who are unable to read or write well enough to function as productive members of our society. It is estimated that one in four Canadians cannot read at a grade 3 level. This means that 25% of our population cannot read a newspaper or the label on a tin of food and they are unable to fill out applications for employment.

Numerous public libraries are endeavouring to address this access issue. For example, the Collingwood Public Library has for some years provided a Leading to Reading volunteer tutorial service to assist those intimidated by the formal educational process.

For the past two and a half years the provincial government and the Ontario Library Association have worked

together to prepare a strategic plan for public libraries. I believe that—I know; I can see them—you have copies of those with you. Last November they released *One Place to Look: The Ontario Public Library Strategic Plan*. The basic principle of this plan as expressed in the first line of the statement of purpose on page 13 states: "The public library serves its community based on the belief that every individual has the right to equitable access to information. This principle confirms the province's and the library community's commitment to equal access to information for all Ontarians."

How has the province supported this principle in the past? You will have exhibit 1. If you would turn to it, it will indicate the levels of support for the libraries by the province compared to that of the municipalities over the last 10 years. Since 1979, the provincial support for public library service has been reduced from 19% of the operating cost of libraries to 10.6% in 1989. In 1987, the latest year for available data, the percentage of the provincial budget spent on public libraries was 0.109%, a reduction from 0.162% or 32.72% since 1979. The 1987 figure is the lowest level of provincial support since 1969. Those are the latest data that I have available.

These percentages show an alarming trend; however, they do not present the whole picture. Another way of expressing this is that in real dollars since 1987 the direct provincial payments to library boards have been reduced by \$4,034,000. That is a reduction in real dollars of 10.8%

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Faced with this loss of support from the province, local libraries would not have been able to serve the information needs of the residents of Ontario if local municipalities had not stepped in to cover the shortfall. Since 1979, the cost of operating public libraries has increased by 135.6%. During this period, the increase of provincial support for libraries has been only 31.3%, while the municipal support has increased by 170.3%. If you look at exhibit one, it will show you the obvious trend that is outlined here. The line graph sinks from 10% to 20% over that 10-year period while the municipal bar chart goes from 70% to over 80% of the total costs of libraries in that same period.

If this situation continues, the province will no longer be considered a partner with the municipalities in the provision of library service for the residents of Ontario. Therefore, we recommend that this committee recommend to the provincial government that it reaffirm its support for public libraries by establishing a respectable minimum level of support expressed as a percentage of the overall provincial budget.

Each public library receives an annual grant from the Ministry of Culture and Communications. This grant is based on the number of households in each community. These data are provided by the Ministry of Revenue. Each household is defined as any place of two or more rooms where an individual can sleep and prepare meals. The Ministry of Culture and Communications sets a base rate for the grant and multiplies that rate by the number of households to determine the grant for each library.

On the surface, this seems like a straightforward process. However, the formula used to calculate the grant is



significant flaws: first, in any given year, the rate of increase to the base per-household figure seldom matches the rate of inflation; second, the household figure currently being used to calculate the amount of the grant is the number of households for 1988. These two facts mean that the impact of the provincial grant is constantly being eroded by the rate of growth in many communities, such as those in the greater Toronto area, and by the rate of inflation.

If you would turn to exhibit two, you will see an indication of provincial support versus municipal support and the rate of increase in CPI. The consumer price index in Ontario increased by 92.8% from 1979 to 1989. Provincial support for public libraries during this period increased by only 31%. Over the past two years, the increase in the grant has been held at 4% per year. This equals a compounded increase of 8.2%. The compounded rate of inflation during the same period is 10.8%, or 31.7% higher than the rate of increase in the grant. With these figures, it is no wonder that the provincial support for libraries is only more than half of what it was 10 years ago.

The other flaw in the calculation of the per-household grant is the use of out-of-date household figures. In the town of Ajax—I use that example because I am familiar with it—the provincial grant in 1981 had been calculated using the figure of 14,739 households. In fact, by 1990, that figure had increased by 24.6% to 18,359 households. This discrepancy represents a loss of \$28,586 for the Ajax Public Library in 1990 alone, and this loss increases each year that the formula uses its out-of-date information.

If the inadequacies of the formula used to calculate the per-household grant are not dealt with, then there is little hope that the inequities of this grant will be resolved or that the role the province plays in the provision of library service in Ontario will continue to diminish. Therefore, we recommend that this committee recommend to the government of Ontario that the base figure for the per-household grant for public libraries be increased annually by at least the rate of inflation and that this committee recommend to the government of Ontario that the per-household grant be calculated using the most currently available data.

All of us are well aware that these are recessionary times and that public moneys must be spent carefully and wisely. History has repeatedly shown us that people turn to their public libraries during times of economic hardship. The public uses the libraries to help cope with problems such as looking for information about new and better jobs, acquiring information about available social services, learning basic skills like reading and effective writing, and using the resources of the library for leisure activities.

An analysis of the rate of increase in the use of public libraries in Ontario over the past 10 years clearly supports this historical trend of increased library use during economic hardship. That is exhibit three in your handout. The average annual increase in library use was just under 3% from 1979 to 1989. However, during the recession of the early 1980s, the average annual increase in library use from 1981 through 1983 was 4.51% or 52.4% above the average for the decade. In 1989 the increase in library use spiked to 5.23% from 2.35% in 1988. That is an increase of 122.6% in one year. These figures indicate that public

libraries are an even more valuable resource for the average citizen in Ontario during difficult economic times.

Thank you for giving us this opportunity to speak to you today. We hope that you will be able to address the concerns of the public library community during your budget deliberations. If you have any questions, we would be happy to answer them.

**Mr Hansen:** It is not a question, but is it possible to have a copy of the brief that you just read to us? With all the figures that were in it, I was unable to copy them down. It is to give us a better idea, because with this handout the background is very important also.

**Mr Nie:** As I stated, Mr Decker has a supply of the handouts. He will distribute them.

**Mr Hansen:** I did not realize that. Listening to you, I have to say I lost an election over a library on a municipal level by seven votes because I supported the library and some of the councillors of the municipality said that it was only more expense on the taxpayer's back. After the library was built, we did win on a referendum vote. Now it is a place you would never get rid of. The town really appreciates that it went ahead and built it. I know these are recession times. I see going up and down that a lot of people use it for referencing, different types of jobs and study and going back to school. I think it is a very important part of the community.

**Mr Kwinter:** I have a question about that 1988-89 spike. Do you sort of attribute that to the downturn in the economy or is there some other reason?

**Mr Nie:** I have done a little investigation. The indications are, not just in Ontario or Canada, that the use of libraries follows the unemployment rate in a geographical area. I would attribute that if we look over the next couple of years, it will follow that they will be, shall we say, heydays for public libraries. The rate of use of libraries will go up dramatically. I believe the dramatic increase between 1988 and 1989 is just the first year of that. I know for a fact among my colleagues and myself that the increase in 1990 for the library I work for in Ajax was 12%. That is three times higher than the rate of increase in 1989. I know that in the Etobicoke Public Library their increase was 6%, which was double the rate of increase of the previous year.

**Ms Kirkpatrick:** Ours was 17%.

**Mr Nie:** So I anticipate that, yes, people are turning to libraries now in view of the development of harder economic times.

**Mr Kwinter:** Are those figures on a per capita basis or on a global basis?

**Mr Nie:** They are the overall percentage increases for the total use of circulation figures for libraries in Ontario. They are not per capita. They are on absolute figures.

**Mr Kwinter:** Do you have correlation? I am thinking particularly of a place like Ajax, where the population is growing and the use of the library is growing, but the per capita use may be down. I do not know that. I am just asking, is there any kind of a correlation?



**Mr Nie:** I do have the figures for Ajax, not for the province. Our per capita use increased at a rate four times that of the growth of the community in 1989. I have to qualify that. I came to Ajax in 1989. The rate of increase in 1990 did go up at a rate four times that of the growth of the community of that year.

**Mr Sutherland:** You have talked about operating grants here. I want to talk about the state of libraries, their physical state in terms of buildings. I know in my community there are a couple that are still operating due to the generous donation of the Carnegie Foundation way back in the beginning.

**Ms Kirkpatrick:** In 1902.

**Mr Sutherland:** Yes, at the beginning of the century. I am just wondering if you could comment on the overall state of medium-sized libraries and their actual facilities. Are a good portion of them very outdated or do we have a lot of modern ones? Have we been able to keep up that way?

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**Ms Kirkpatrick:** I am still operating out of the 1902 building and probably will be for the next 25 years, I think. I would say in general terms that the majority of public libraries in the medium-sized range are out of their Carnegie libraries and into more modern facilities, although now a lot of those buildings were done in the 1950s and 1960s and they are now looking at new capital expenditures on them.

**Mr Nie:** May I raise one point on that? The figures I quoted in the document include operating and capital expenses. About five or six years ago, they changed the reporting formula. What they did is include base grants plus special grants. So they are there.

The ministry, over the last probably five or six years, has provided funding at the rate of about \$1 million or a little more than that a year for capital development in libraries. So there have been a number of building projects. I know when I worked at the King library we constructed a new library and one third of the funding came from the province. But the library I work in now is in a building that has not received any renovation or addition since 1975. At that time the population in Ajax was around 20,000. It is now over 50,000. We are at one half the ratio of people to square-foot ratio, which is 0.6. We are at half the ratio of that and do not anticipate any capital development of our library over the next three or four years.

**Mr Sutherland:** Since you mentioned most of the libraries seem to be from the 1950s and 1960s, I am wondering about ventilation and those things in terms of keeping the books in proper form.

**Ms Kirkpatrick:** Preservation.

**Mr Sutherland:** Preservation of books, if you care to comment on that.

**Ms Kirkpatrick:** That is obviously a serious concern for all libraries and librarians, primarily because the paper that books are printed on is of very poor quality and does not lend itself to adequate preservation, right off the bat. I

do not know of any library in Ontario right now that is air-conditioned. Do you, Geoff?

**Mr Nie:** Oh, yes.

**Ms Kirkpatrick:** Of a medium-sized nature. I know smaller ones are—

**Mr Nie:** I know those ones as well.

**Ms Kirkpatrick:** But yes, that is a concern. A building that is now touched has to meet the building code requirements. Certain things are built in which make the preservation issue a lot easier to deal with. I come from Perth county and we have a number of Carnegie libraries still operating in the county which have not had any major renovations. They have window air-conditioners. That does not provide adequate humidity control or temperature control for materials—or for the staff, I might add.

**Mr Nie:** One of the platforms of the public library strategic plan does raise the issue of the need for preservation for collections.

**Ms Kirkpatrick:** And the need for adequate buildings.

**Mr White:** I am wondering, in terms of a number of information services which have not been traditional library services, if there has been special funding or does it just come out of your base budget? I am talking here of a range of computer services, video, those kinds of things which we, in our 1990s and going into the 21st century, will need in all of our communities as part of our information technology. I am wondering, does funding for innovative programming in those areas which would allow for general public access to those kinds of information technologies come out of your base funding?

**Mr Nie:** In a single word, yes. There are occasional grants although not at the present time, special grants that are available. If you watch them and you happen to be developing your services along the appropriate line, you may be able to receive some funding. But basically, they are one-time grants for startup. Then it is the responsibility of the library to maintain and develop that service further.

In the Ajax library, we are now introducing video collections for the multicultural community. We are introducing popular music on tape and compact disc and the increase of these services is directly related to our base budget.

**Mr White:** Those additional services or additional information technologies would in fact be much more expensive than the traditional ones.

**Mr Nie:** I do not think that can be supported. I think they are comparable costs and as they become more common technologies they are coming down. It was true that when you were dealing with videos five or six years ago when I introduced them at the King library they cost an average anywhere from \$80 and up, but the cost now has come down to around \$25 to \$40, unless you are getting into the more elaborate productions or you are requiring a public lending rate licence with your purchase. That makes them very expensive and they can be several hundred dollars a title.



**Ms Kirkpatrick:** I think that for libraries looking at new forms of technology for storing and retrieving information, the big difficulty is the hardware costs to start. Once you have the appropriate machinery in place to these, the subscriptions are now running comparable to print as CD-ROM technology. For example, we have at our library that we have just bought Books in print on compact disc as opposed to the print version. We get an update three times a year and it is only going to cost us another \$100 a year. So the prices of the products themselves are running more or less similarly, but the big problem for libraries is acquiring the hardware and then paying the communication costs to keep it running. That comes out of our operating budgets.

**The Chair:** Are there any other questions? Seeing none, thank you for your presentation. It was very well done.

#### HOME SHARING PROGRAMS

**The Chair:** Our next presentation is the VON home sharing: Beryl Stephen, co-ordinator, and Harry Grant. Would you like to proceed?

**Mr Grant:** I have very little to say. My name is Harry Grant. I am the chairman of this committee. I am also on the board of the Victorian Order of Nurses in Hamilton. Our constitution calls for us to always have a VON chairperson on any committee we look after. I am going to let Beryl say everything today. She has it all written down and ready for you. If there is anything I can give you from a VON point of view, I certainly would be happy to. Incidentally I think we are the only VON in Ontario that supports this particular committee in Hamilton and I would like to say that Beryl is also representing all these committees in Ontario.

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**Ms Stephen:** I am the co-ordinator of the VON home sharing program but I am speaking on behalf of all 17 home sharing programs in Ontario. Some of the co-ordinators are present here and one consumer is here as well. I would like to point them out. They are this gang here. If you want to know where they are from, there might be people from your constituencies. I would like them to give their names and where they are from if that is permitted.

**The Chair:** How do we do that?

**Ms Stephen:** I am sorry. I do not know all their names. We have just got together. Usually we are in our own communities and we see each other very rarely.

**The Chair:** Perhaps they could tell you their names and you could speak into the mike.

**Ms Stephen:** Susan Nwosu, North York Housing Connection; Ali Zahedi, East York and Flemingdon housing registry; I know Christine Chun from Scarborough Housing Assistance and Placement Education for Singles; Ola Salmon and Bev Goodman from Niagara; Andraya Opppe from Waterloo region; Angela Covert from York Community Services; and Lois Parker, an 86-year-old home seeker—successful. She lives with a 92-year-old. They needed very little help from me. Just a little bit of teaching and they wanted to know what they should be

talking about and I gave them a written agreement and that is all the time they took. So I invited her on to my committee. She has been very helpful.

We came here today to speak with one voice as co-ordinators because we have some things we would like to speak about. I am pretty well following this text. In case everyone did not know what home sharing is, I brought a generic brochure from the ministry. They were very kind to give us a lot. Then I brought a pack of client profiles of what the program actually does, and that article by Michele Landsberg is a very good example of what happens here in Toronto. Then I have brought some letters of support. That is the third thing.

I brought excerpts out of a very recent biennial report. I just finished it the end of December. Table 1 especially shows you the type of people we deal with: the special needs client, frail elderly, mentally and physically disabled people, people who are visibly in minorities because of the colour of their skin basically, family violence survivors and one-parent families. That is what my agency does. Other agencies deal with homeless people off the street, people living in the Don Valley. They find places for them to live.

The last piece in your package is an idea for the future which has to do with the direction that I see this new government going in and I would like committee members to read it.

First of all, we would like to endorse the new policies and directions that we see the new government going in. We understand and sympathize with your government's unexpected inheritance of a \$2.5-billion deficit. We applaud your efforts to date. As taxpayers, we are encouraged by your intention to significantly reduce this deficit in spite of a recession.

As housing workers, we are impressed with your efforts to introduce needed changes in the court system, pay equity, the welfare system, health care and the myriad of essential social and employment services. It is even more encouraging to read that the Premier's councils on health and economics are taking new directions. A council on health, wellbeing and social justice and a council on economics and quality of life sounds like a comprehensive attempt at integration of policies.

Creating such linkages logically leads to more effective and efficient services. This is good news for home sharing co-ordinators across the province as we attempt to negotiate and facilitate adequate social and economic conditions in shared housing arrangements at the grass-roots level.

Now I would like to tell you the goals and objectives of the home sharing program as mandated by the Ministry of Housing. Home Sharing programs have been established to screen and match those 18 years or older who are interested in shared accommodation as a safe, affordable alternative. Many programs focus on the needs of seniors, that is, people 55 years or older and concentrate on inter-generational matches.

Home sharing programs have four main objectives: to provide an alternative for individuals seeking safe and affordable housing; to enable seniors to consider living independently within their own homes and



neighbourhoods; to reduce social isolation experienced by both sets of clients by creating opportunities for increased companionship and security; to intensify and preserve the existing housing stock in a unique way.

In short, home sharing is a means of fostering independence, self-determination and autonomy in the lives of many who have been forced to live in socially and economically restrictive circumstances.

The history of home sharing:

Home sharing programs have been formal organizations in North America for over 20 years. Home sharing has had a national profile in Canada for at least 11 years. In Ontario, the Niagara region is the pioneer. In 1985, the Ontario Ministry of Housing began to co-fund programs with the regional government through 75 to 25 cost-sharing arrangements. In the past six years, this partnership has worked very well. Presently there are 17 programs growing. There are not any that are not growing and meeting the social, economic and housing needs of a wide variety of Ontarians. We have special-needs clients and then just ordinary people who, because of the recession, feel the crunch and want to move to a more affordable space and are willing to share their accommodation. That is why our waiting lists are growing and growing.

In fact, the Ontario model of home sharing is internationally recognized for its effectiveness, cost-efficiency and innovations. In 1990, the majority of matches across the province involve special-needs clients. According to statistics recently compiled on 12 of the 17 programs, 44.7% or 265 matches kept seniors out of non-profit senior housing units, and 16.8% or 99 matches kept mentally and physically challenged home sharers in the community off the street, out of hostels, out of emergency rooms and hospital beds, nursing homes, homes for the aged and rest homes—that is out of institutions, preventive institutionalization.

On the other hand, 28.3% or 168 matches enabled home sharers to come out of institutions, either out of rest homes or hospitals. In Hamilton I am able to take people right out of hospital even though they are facing nursing home placements. The total number of matches made in 1990 was 839. In addition, two programs—SHAPES, the Scarborough Housing Assistance and Placement Education for Singles, which is Christine's and mine, and the Victorian Order of Nurses home sharing—deal with significant numbers of new immigrants and multicultural groups while others are able to match the survivors of family violence. I do that too.

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Although the actual numbers are relatively small, the Ministry of Housing's share of \$50,000 per program—that is all it costs the provincial government—is \$50,000 into the communities. The communities pick up the rest and are very glad to do it because these programs are essential for the services that already exist. By injecting that \$50,000 in each of these communities, there is a large multiplier effect in other ministries such as Health, Community and Social Services, and Citizenship, and for human rights, the disabled, seniors, race relations and the new division of community health and support services.

Also, there are many other effects that are hard to measure but that are very significant, such as the reduced stress upon family care givers, the reduced stress in neighbourhoods. The police are not called as often, the fire department is not running down the street because some little old lady pressed the button or called 911 when she did not have to or called other informal support systems. This is significant. I am not being facetious here. This really happens a lot.

The cost to the government:

Now I am going to tell you what this \$50,000 per community would cost if it were withdrawn. The cost to the government to build one non-profit housing unit is \$10,000. We know that is a conservative figure, but we do not want to inflate the value. A hospital bed costs over \$400 a day. A nursing home bed or home-for-the-aged bed costs from \$745 to \$1,100 per month. A bed in a hospital costs \$24 a day in subsidies. I am only talking about subsidies here. Beds in women's shelters and second-level long-term care homes are up to \$31 a day. Simple arithmetic quickly shows how millions of dollars are saved by spending \$50,000 across the province.

Our concerns:

The reason we are here and not interviewing our clients today is that in mid-January the majority of the Ontario home sharing co-ordinators were told by a senior Minister of Housing official that there would be \$40 million trimmed from base-funded programs within the ministry. According to the official, the home sharing program was one of the most vulnerable programs because they have always existed on the surpluses. They have never been base-funded and so if there are no surpluses, what happens to us? This is what our question is. We were also told that the final decision by the Management Board will be made by the end of January. Today is 28 January, therefore we are here asking what is going to happen to this very effective program, this innovation.

We have not been able to get an answer from the Ministry. We want an answer from the ministry because our clients are getting upset because we are not sure what we should be doing. We decided last week to form a lobby group. That seemed to be the most effective thing to do so that we could get what we did. As stated previously, we are not questioning the necessity of cuts or tough decisions. We applaud you for certain cuts and tough decisions but we are saying please save this program because of all the benefits it has in other ministries. The confusion we have is that given the NDP's grass-roots style and philosophy of helping the most needy, we are confused by the potential elimination of a program which effectively serves such groups, to say nothing of the frail elderly and the working poor seeking safe and affordable living arrangements within the community.

Living with this cloud of uncertainty affects the very essence of our matching service, which is built on a trusting relationship established with matched and potential clients. At the moment we cannot provide that trust with a degree of certainty or confidence. The demand for service is ever increasing as the news of our successful matches become public. There is great concern on the part of the needy in the community and among their service providers.



For example, when a case manager from the Hamilton program for schizophrenia called me last Thursday, I told him I could not take his referral because I was organizing a support group. I informed him of our predicament. I did not ask him; he just told him I could not take his referral.

Within an hour I had a letter of support within my hands. It was not faxed, it was hand-delivered. It was written by the clinical and executive director of that program because I am able to match and place schizophrenics and physically disabled people. They are the people who need a lot of help. That is not all I do; it is very broad, what I do, is that if our program goes, where are they going to live?

We have a solution. We have told you the problems and we know we can run an effective service within the present guidelines. We are only asking to be saved from a \$40-million trimming. That is all we are asking, to be saved from the trimming. Many of us have ideas on how to paden our service on the existing resources. We all have many ideas and we would be willing to sit down and talk with you or the ministry at any time about these ideas.

Some of the ideas are found in the conclusion section of this. Andraya has ideas, Christine has ideas, we all have good ideas to do with what we have now. This document which was submitted to the health innovation fund committee is an idea for the future which builds on the concept, which provides jobs. This document provides jobs and also takes people out of hospitals. We will only deal with home providers who are in hospital awaiting nursing home placement and then we will deal with people who need to be paid care givers. So that is a future idea. We have our ideas. We are willing to sit down and talk about them any time.

However, I want you to know that our present resources are very, very stretched. Basically, we want to go on at a provincial level until broader evaluation criteria and a different unit of analysis can be applied to take into account a more realistic cost-benefit analysis, because right now it is just directed at housing when it should be much broader. The Ministry of Housing is paying for all these benefits, but we cannot do them all adequately because we need actually every one.

The home sharing program in its present form has much to contribute to the social housing needs of the rapidly growing aging population and the increasing numbers of new immigrants. However, piggyback funding to extend this vital and innovative service to special needs clients is a future consideration. It is not what we want now. We are just saying it is something that we should consider for the future.

We have two recommendations that we would hope, you would urge you to recommend to the Legislature. They are pretty simple. Because of its proven effectiveness, widespread social benefits and cost efficiency we urge this committee, the finance committee, to recommend the proposed \$900,000 be found somewhere in the 1991-92 Ministry of Housing budget for all 17 programs. Second, we urge this committee to recommend that broader evaluation criteria and a different unit of analysis, such as "registered client," be considered so that the wide-ranging social benefits can be partially captured. You cannot capture them all

but we can partially capture them that way, in an equitable way.

In conclusion, I would like to thank you for your time and consideration. We look forward to a written response from the Ministry of Housing about this urgent matter as soon as possible.

**Mrs Sullivan:** We have had another presentation before the committee from a home sharing organization in Toronto and it was a very interesting one. I want to say at the outset that I see in your brief that you are very encouraged by the new government and I am glad to see you are. I do not belong to the party of the new government and I want to underline the fact that it was the old government that began this home sharing program.

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**Ms Stephen:** We understand that.

**Mrs Sullivan:** You are looking for \$900,000 in base funding.

**Ms Stephen:** No, we are looking for \$900,000—

**Mrs Sullivan:** Let's talk about \$1 million. Where else are you applying? I see that you have applied to the innovation fund for about \$200,000. Are you going elsewhere as well and did the home share organizations receive money from other sources besides the Ministry of Housing?

**Ms Stephen:** We have to go after the other 25% ourselves and that basically comes from the region. This house innovation is just an idea from my local agency. It has nothing to do with the other 16 programs. We have tried. We are severely understaffed and this was an attempt to get increased staff and now we find not only are we severely understaffed but we are in jeopardy. We might be all gone and the service will be gone to the communities. At a regional level, regions are very supportive, but they are all on zero-based budgets and so we can get the 25%, but it is contingent upon getting the 75% from the province. That is why we came here.

**Mrs Sullivan:** I understand that. What I am asking though—in the past you received funding from other sources in the provincial government as well, comparable to the special application that you have made to the innovation fund—did you not receive funding through Community and Social Services at one time?

**Ms Stephen:** No, Niagara did in one way, but it is a very small amount. It was part of the 25% of the regional share. It is not the 75% from the province, so to speak. What we are told is that under the present rules you cannot have piggyback funding. You cannot get funding from one ministry and another ministry; they will not let you do that. It should be done in the Community and Social Services—I am part of another group and we applied for the program money to Community and Social Services and the housing money from the Ministry of Housing. The problem with us, home sharing, is that we do not have buildings. We are not bricks and mortar. We are social housing so we are kind of an anomaly, but as long as we have Ministry of Housing funding we cannot go to the Ministry of Community and Social Services.



**Mrs Sullivan:** Has the VON in Ontario taken this as one of the issues that it is seeking funding for generally?

**Ms Stephen:** I am not speaking on behalf of them. I have nothing to do with them. I am at a local branch. I am from Hamilton.

**Mrs Sullivan:** I understand that. Have you met with the Minister of Housing or people on his staff?

**Ms Stephen:** We have tried to get an appointment, but it takes three weeks. We have mounted a letter-writing campaign and we have alerted—we just knew this. We found out informally and first of all it took a week to convince our agencies that this was true because this is just a shocking matter, and then last week we started getting letters going. We have not talked directly to the minister. Some people have talked close to the minister, but not—

**Mrs Sullivan:** Have you met with the regional office of the Ministry of Housing in your area?

**Ms Stephen:** Not yet. I mean, we thought we had to get right to the source of it first. We are willing to do whatever it takes, but when you are told that in two weeks the decision is being made and you are probably going to be eliminated, you want to go right to the source because bureaucracies are kind of slow and we might be out in the cold. It is not us; it is not the workers; it is our clients, because who is going to advocate for them when we are gone? No one.

**Mr Phillips:** Well, a government that will listen to people and respond to their needs—the throne speech. But just a couple of comments; one is, I guess, on the good news side. In your brief you say you recognize they inherited a deficit of \$2.5 billion. I think that the news may be better than you are aware. I am not sure they inherited a deficit now of \$2.5 billion, so as we look at the numbers it may be encouraging news to you.

I guess my comment, though, would be that I am quite familiar with SHAPES. It is a good organization. For those who are familiar with the organization, it takes a long while to build up that network because, first, you have to find a lot of people who have the facilities they want to rent. Then you have to find the people who want to rent. It is kind of a networking thing, which, as you say, is not bricks and mortar. SHAPES, I guess, came out of the Agincourt community services. I was around at the start of 1970, I think, when about five people started that. It emerged out of that.

I agree with you. If your funding is cut off, it takes a long while to re-establish that. Also, I believe these are the kinds of organizations we are going to look to in the future because they are kind of self-help, the things that are quite—I hate the term—cost-effective.

**Ms Stephen:** It is a private solution.

**Mr Phillips:** I think as we look ahead there are going to be more and more needs. I think you are at the right place with the sound of desperation in your voice because you think it may happen in the next couple of days.

**Ms Stephen:** We have no assurance that it will not.

**Mr Phillips:** If I can speak from personal experience with one of the 17 groups that cover all of Scarborough, it

is a very cost-effective organization whose needs will grow in the future. The challenge for this committee is that we are trying to look at a longer-term budget, and you are facing a perceived crisis in the next few days, whether or not it is real. I could speak as one who will not be able to have a huge influence on them, but they are listening and hope they respond to it.

The last thing I would say is that I am surprised we have not seen the Victorian Order of Nurses here as a total organization, because I think it also has some fairly significant—

**Ms Stephen:** Maybe next week.

**Mr Phillips:** Maybe next week? I support your thinking and say you may have better news than you realize, but because they may not have inherited a \$2.5-billion deficit, I hope they can handle things for you over the next few weeks.

**Mr Malkowski:** Thank you for your presentation. It has given us a lot of information. But I would like a little clarification. You say there would be a trim of \$40 million. Is that through the Ministry of Housing?

**Ms Stephen:** Yes.

**Mr Malkowski:** Can you explain where you got that information? You said a senior administrator. How did you come about that?

**Ms Stephen:** The Toronto co-ordinators meet on a quarterly basis and the ministry officials come. The Toronto people have known about this potential elimination or have seen the signs of it, since at least December, maybe November. The Toronto people had to write a letter. They might not have had any more funding come 1 January, but they wrote a letter 15 December and got assurance that they have funding until the end of March, and we have funding until the end of March.

Then there was a meeting I think about 17 January in Toronto and this is where a senior official came and told me specifically about the cuts and the conundrum that they were in. He said, "We're not choosing between buying a truck and cutting you guys." It was between seniors' housing and home sharing. But the problem is that we are a project that has been living on the surplus, so if there is a major cut like that in the base-funded programs, it just seems like it is clear: You are not there any more. He said that the decisions would be made by the end of January very shortly after that.

**Mr Hansen:** I met with Betty, I believe—I cannot remember her last name—from home sharing here in Toronto and I assured her that I would write a letter to the minister to find out. I did not have as much information then as I have here now in front of me.

The other thing too, and maybe Betty misled us, is that there were 800 brought together in a year. Is that in a year or altogether in the program? She had me believe it was 839 matches altogether, but that is only in one year.

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**Ms Stephen:** Yes, that is all programs. We are back in 1990. There are many ways, as of course you know, to count statistics. We were counting them in a fiscal year, but all of a sudden now we are counting them in the calendar



r. So we found out how many were in the calendar year, and that is 839. That may sound a small number, but it has a ripple effect in communities, such as what happened to Susan back there. She was not a direct match, but she found out that we were doing this and could give her some advice and she went off and did it herself. So that is a very misleading thing. That is why we would like to be count-registered clients instead.

**Mr Hansen:** You could actually double that figure, because that is only one half of the match.

**Ms Stephen:** Right, that is only one half.

**Mr Hansen:** So there are 1,600, close to 1,700 involved in the match in one year.

**Ms Stephen:** Well, actually, many of the matches involve more than three people. I match whole families, families of three or couples and their mothers and their children, so that is a very misleading figure. That is one of the problems that we face when it comes to cost-benefit analysis.

**Mr Hansen:** One thing I have to say. I met with the Niagara district health council, and I was talking to Doug Pelje, and I was very pleased that it is pioneered out of our area. Doug has done a lot of things in this particular area, and I know that he supports it. He lobbied that particular day, and I know there were four other MPPs from the Niagara area. We are going to be talking to the minister to find out why this funding is stopping.

**Ms Stephen:** Well, we still need a written response, because the problem is that we do not know what to do with our clients. I have over 200 clients. When the phone rings I am not sure whether I should be making an appointment, taking any new ones or just dealing with my present ones and finding somebody, a case manager, who can look after them in one way or another. So we need to know very soon. We cannot be sitting here waiting for another month or two not knowing.

**Mr Hansen:** Okay. I can say my assistant here in Toronto has already contacted David Cooke on this. I just have not got a reply back yet.

**Mr Phillips:** You actually spoke to him?

**Mr Hansen:** No, his office.

**Ms Stephen:** Thank you very much.

**Mr White:** I just wanted to comment briefly about a couple of things. One, obviously the nature of the program is an excellent one, very innovative. I think we got lost a little bit in terms of the immediate short-term difficulty, which I am sure is a bureaucratic mixup which perhaps the parliamentary assistant to the Minister of Housing could take back to her minister. Two, the need for this kind of program, not simply to secure funding but also to be a valuable program throughout the province. I do not have such a program in my area. It is obviously a very valuable program, particularly for, say, abused women in rural areas where there is not an institutional setting, nor is it appropriate for there to be one.

So I guess what I am struck with is the difference between the overall program, its merit, how it would fit in

in an innovative way into communities and the immediate threat that seems to hang over you.

**Ms Stephen:** We are facing an immediate threat.

**Mr White:** I think that has sort of distracted us a bit from the overall value of your program, and I am sure that the Minister of Housing will look into that temporary, short-term problem there. Thank you.

**Mr Kwinter:** I just want to sound a note of caution. I got the sense of urgency in your presentation, and I just wanted to make sure that you did not think that this particular committee was in a position to do anything about it—

**Ms Stephen:** We understand that.

**Mr Kwinter:** —and that what you really have to do is to pursue the minister now, the ministry and anyone else that you can get to do it. We are having pre-budget consultation meetings. We are listening to you. We will be making recommendations. Whether the Treasurer or the government decides to implement any of our recommendations is up to them. If you are of the impression that by coming here you are coming to the source and we are going to resolve your problems, I just want to make sure that is understood.

**Ms Stephen:** I understand that, but this is a public forum, and this was the only public forum we could get to this week.

**Mr Kwinter:** I think it is great. In your presentation, I got the impression that you were looking to us to respond immediately and resolve your problem. We are not capable of doing that.

**Ms Stephen:** I understand that. But I understand that you make recommendations to the Legislature as a whole, so I thought it was appropriate to come and speak. Some of the matches are very beautiful stories. The Michele Landsberg one is. The top one on this one is between an elderly lady with panic disorder who was recently widowed and who was borderline anorexic before her last home-sharer came. He was a young man. He cooked. He fed her up so that she gained 20 pounds just in time to now console him because he is Iranian and he is very concerned with the Middle East war.

The roles have changed; the tables have turned. She is consoling him now. That is a very beautiful thing and that is what can happen in these matches. I have a match between a physically disabled man and a schizophrenic. One is not able to physically cook, but he can read the recipe and the other guy just gets a little bit of reassurance and he can put the things in the pan. Those guys are going to be together for years. So this is what we are talking about losing. Should not do it.

**Ms M. Ward:** Some of my questions have been answered. You have never had assured funding?

**Ms Stephen:** No. We have been living on project funding. It is time to base fund us.

**Ms M. Ward:** So every year you would have been wondering if it was coming forward.



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**Ms Stephen:** We only had assurance that we would have project money for two years. The third year was how well we did in our match quotas. We work on a quota system, a minimum of 35 a year. If you do not make your 35, then there is a real evaluation as to whether you get funding for the third year. That is the wrong way, but that is what we have been living under.

**Ms M. Ward:** Thirty-five matches?

**Ms Stephen:** A year. But Christine sits there and does 200 a year.

**Ms M. Ward:** The other point has been brought up about the other contacts that you make, people coming to you with what appears to be a housing problem. People I have talked to who are working in it say you are very often dealing with other problems too which you may refer.

**Ms Stephen:** Not always. It is your definition of housing. Before you ever get to what kind of housing you are going to have, you have to find out what are the operating factors in the person's life. It takes an hour to find that out. Sometimes you have to do a little bit of advocating for them and what not. You try not to do too much; teach them how to do it for themselves. But yes, there is a large counselling component in it, but the Ministry of Housing calls that a soft service. That is not a hard service.

**Ms M. Ward:** These statistics are only the matches, not the number of people who contact you or walk into your offices.

**Ms Stephen:** That is right. If you want that, we have it. We have that information.

**Mr Hansen:** I agree with Mr Kwinter there. This committee is listening to the needs of the different groups out there. I was speaking as an MPP from the Niagara area, I hope you understand.

**Ms Stephen:** Yes, I do. Thank you very much.

**The Chair:** Thank you for your presentation.

**Ms Stephen:** Thank you for listening.

#### ONTARIO FEDERATION OF AGRICULTURE

**The Chair:** Our next presentation is the Ontario Federation of Agriculture; Roger George, president, Bill Weaver, second vice-president. I notice there are more than two, so perhaps you could introduce the rest of the members on the panel.

**Mr George:** Along with second vice-president Bill Weaver, I have on my right our executive director Carl Sulliman, and on my extreme left, manager of research and policy development Cecil Bradley. They will be with us on any technical issues today. I am Roger George, the new president of the OFA. Along with my wife, I have a livestock and grain operation in Nipissing district. Bill, do you want to tell them about yourself?

**Mr Weaver:** I was newly elected. I am second vice-president of the federation in hog and egg operation in Kent county. So you have real, live farmers in front of you this morning.

**Mr George:** We have circulated to the committee a brief, which we do not intend to go through in detail but it

will serve you as backup material. We are pleased to be here in these consultations before members of all the parties in the Legislature to hopefully explain to you some of the circumstances that farmers find themselves in as we move into a new financial year in Ontario agriculture and as indeed the provincial government is formulating its financial policy for the next while.

I do want to touch on three major issues you will find on the inside page called the introduction. We intend to touch briefly on farm credit issues, the whole issue of grains and oilseeds stabilization, and a little bit on rural development.

But before I get into those, I kind of just want to give you a little bit of an analogy. I almost feel like Oliver Twist here today. I did see the movie Oliver over Christmas again and I thought it had some sort of appeal to farmers because here we are again coming back and saying "Please, sir, I want some more." I am quite sure that many of the newly elected members of the Legislature, particularly those who have no great experience of our industry, will be thinking about, you know, the government is going to be moving very shortly to give cabinet approval, we hope, to a new grains and oilseeds stabilization plan which we call GRIP. This is short for gross revenue insurance plan which is part of a new national program that our organization and many others have been working on for the last few months. This will indeed put some stability into a sector of the industry that has been very hard hit.

But that is not the end of the story. The agricultural industry is going through some tremendous changes. We have also got some tremendous impacts affecting us, particularly in the whole issue of credit and interest rates. Our industry is very susceptible, probably more so than most, to high interest rates. Inasmuch as by and large we are price-takers rather than price-makers, we do not in many sectors have the ability to crank up our returns to offset ever-increasing input costs, of which interest rates are a major factor—\$4.6 billion is the amount of farm debt in Ontario farms today, which is only down about \$500 million from its historic high of a few years ago.

We also want to explain to you, or try to explain to you, the importance of our industry in the economy of rural Ontario—not just rural Ontario but Ontario, period. While agriculture's gross is something in excess of \$5 billion direct prime input generated, the total spinoff effect on the provincial economy is in excess of \$40 billion. This includes the food-processing sector and all the different manufacturing jobs that farmers directly or indirectly cause to happen with their activities, and that is \$40 billion and tens and tens of thousands of jobs which hinge directly or indirectly on the wellbeing of a good, prime agricultural industry.

1150

I think in Ontario from time to time we tend to take for granted the farm sector. With Ontario being such a diverse economy, I think that farming tends to get forgotten from time to time, especially among the urban sector. Really, we have to ask the question, what does urban Ontario want? Well, they want adequate supplies of safe, affordable food and that, Mr Chairman, is what Ontario farmers have given their urban cousins and in fact everyone in the province



last 100 years—adequate supplies of safe, affordable food. By and large, I think that is taken for granted, and we cannot afford to take that for granted because of the economic situation in agriculture. Many farmers are for the first time really reconsidering their position as having a viable future in this industry. I do not think that the Ontario government can take farming for granted for ever and ever. I would hate to be in the position of a future government that has to pick up the pieces if indeed we lose much more of this sector. It is going to be a lot easier to keep it going through difficult times than it will be to pick up the pieces down the road once the wheels have fallen off the cart. So I hope when you are making your recommendations to government and to your caucuses that you do take into consideration and investigate the importance of this industry and try to understand the importance of this industry in the general economy.

On the issue of farm credit, you will see that we have attached a brief that we made to Pat Hayes's committee, which went around the province before Christmas investigating and consulting with farmers on the issue of farm credit. It goes into fairly exhaustive detail on giving the state of the Ontario situation out there in agriculture—as I say, \$4.6 billion in debt. We put in some technical information on all those things that you may be interested in.

I just want to hit the general high spots here and say that the Ontario Federation of Agriculture, along with many other farm groups, is going to be asking our Minister of Agriculture and Food and the Treasurer and the provincial cabinet when we meet with them in April to introduce a long-term credit plan in Ontario. We understand that it may take another year of study and development to put in place that type of sustainable long-term credit for Ontario farmers.

In the interim we shall be asking for an interest rebate program, probably specifically targeted to those farmers in the most need of it. For certainly four out of the last five years, we have had interest rebate programs of one form or another, and by and large they have been highly successful in dealing with this problem, but on an ad hoc basis. The FA believes that the time has come for Ontario farmers to have the surety of having a long-term farm credit program that they can depend on, just the same as is available in most of our competing major agricultural provinces, namely, Alberta, Saskatchewan and Quebec, where the provincial governments give preferential lending rates on a long-term basis to their farmers.

Clearly, it puts Ontario farmers at a disadvantaged position and the responsibility for that, we have always felt in Ontario, has fallen to the federal government. That is why Ontario has kept out of that, but the federal government has clearly been neglectful in its duties. The federal Farm Credit Corp has fallen away as being a prime and meaningful lender of long-term credit to farmers. If the federal government is not interested any more in that, and we do not see too many signs that it is, then I think this province has no option other than to get back into the long-term credit business. But as I say, that is going to take some time to develop. In the meantime, we are going to be

pressing our minister and our Treasurer to come up with an interim program for 1991.

The second point I want to make briefly is on this whole issue of grains and oilseed stabilization. As I mentioned before, we are very close to getting cabinet approval for the GRIP program, the gross revenue insurance plan. That will indeed give a base price to cash crop farmers. I do not want to get into the technical details of that. We think it is going to be a beneficial program. It is not going to be cheap. On a national basis, the premiums are going to total about \$1.6 billion. That is for all three parties. It is a tripartite program and the agreement at the national level is that the federal government will pay 42% of the premiums, farmers will pay 33% of the premiums and the provincial government 25% of those premiums, so there is going to be a cost to the provincial government in that respect.

Also, the second portion of the plan, and it is a two-pronged plan, is called NISA or the net income stabilization account. That is a different type of program based on a farmer's, as it says, net income. The figures will be taken directly from the income tax form. The final details are not yet worked out, but we are certainly expecting and hoping that this government will indeed join others across the country in making this a truly national program because the net income stabilization account does have some very long-term, positive aspects to it.

The real problem we have with it is it takes a number of years to get the program up and running in so much as each farmer builds up his own individual account with after-tax dollars. Clearly, the time to be building up an account is in times of good prices rather than, as we are now, trying to start the thing off in poor times. We are not starting it off at a good time—and I was on the national committee that helped to put this thing together—but we believe that over the long haul, the net income stabilization account will be of major significance to take us into the next century. I would be very disappointed if Ontario decided, because of fiscal restraints, not to get involved in this one at the beginning, because from the point of view of international trade compatibility, it is going to be a key thing in the future.

The final thing on grains and oilseed is that, again—and as I said before, “Please, sir, can I have some more?”—we are going to be coming back. When I say “we,” the Ontario Federation of Agriculture and all our commodity allies are going to be coming back to both levels of government and asking for a deficiency payment for grains, oilseeds and horticultural crops for 1990, because in 1990 there was no effective stabilization program out there. It has taken us over a year to get this far with GRIP and NISA and the cash flow problems facing many producers this spring are going to be horrendous as they come off a year when they had pretty decent crops but the prices of seed were just pitiful. Certainly the world price of wheat is at a historic low in terms of real dollars.

I just again would hope that committee members can get some understanding of these difficulties that farmers have been facing, brought on in large part because of the international trade wars.



On the final issue of rural development, I do not want to get into any details on that. Maybe we can deal with it in questions, but our organization believes, as I think does the Ministry of Agriculture and Food, that there is a need to investigate this whole issue of rural development. Rural development can mean many things to many different people, but to my mind it means spurring economic activity in rural Ontario with entrepreneurial help. We need some seed money from governments, but I think a lot of the thing can be generated in rural Ontario itself on a localized basis. It becomes almost self-help, but it needs some kickstarting from governments.

I think it is an exciting, long-term, multimillion-dollar, multi-year project that I would hope the government would certainly be looking at, because Ontario people I think can be the masters of their own fate as well, but we also need the sort of encouragement that urban areas have had. As infrastructures are being built up in urban areas, I think rural Ontario has from time to time been forgotten.

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With that, Mr Chairman, I think we should move, if you wish, into questions. I just want to say that we are here today to back up in the strongest terms our Minister of Agriculture and Food, Mr Buchanan, when he is going to be making his pitch to the Treasurer to not only maintain the budget of the Ministry of Agriculture and Food but to increase it for some of these areas in which I have pointed out we need the aid. I think it is very important to get back to my original question of what does urban Ontario want? They want adequate supplies of food. What do they give us in exchange? It often is their garbage and that is just not good enough, because if the farmers are going to do their thing, produce this affordable and safe food, then urban Ontario has to look at the farming community in rural Ontario as a lot more than a playground and a place to dump its waste. They have to recognize it for what it is, as a centre of key economic activity and that farming is the second-largest industry in this province.

**Mr Sutherland:** Given that last comment you said about being the second-largest industry, I had someone comment to me that in terms of overall economic recovery for this province the fact that what may slow it down is that there are approximately 10,000 or fewer farmers now than there were at the time of the last recession. I was wondering if you can comment. Are those the numbers you have? With that many out of the industry, I was wondering if you could comment on what type of impact you feel that is going to have on economic recovery for the province as a whole.

**Mr George:** The question of how many farmers there are in a province is one that has eluded most of us. It depends on what you define the farmer as and certainly our organization is never going to attempt to define a farmer.

I guess when we get the 1991 census, we shall have an idea, in terms of census criteria anyway, just how many farmers we have lost, but you are absolutely correct, many farmers have left the land. More important than that, I

think many more farmers are working off the farm in order to support their operation.

Cecil might advise me what percentage of farm family income actually comes from non-farm sources and it is fairly significant. I would venture to say that it is probably half. Most businessmen would not expect to have to send half the family out in order to support their business, that is exactly the state that agriculture is in at this point in time when we are doing that.

Just remember that when a farmer's family is forced to not only maintain his farm but go and work off the farm, they are also displacing someone else, probably young people without any experience, who are trying to get their first elusive job in a factory or wherever. Clearly, we have a vested interest, from a total picture, in keeping our industry healthy so that our farmers can actually make a living completely off their farm and so that we are not competing for jobs with everyone else.

**Mr Kwinter:** I was just curious to know whether either or both GRIP and NISA have been checked as to their compatibility with both the free trade agreement and the GATT. Are there going to be any problems as a result of pursuing these particular initiatives?

**Mr George:** In so much as we do not know the final outcome of the GATT yet, that question may be a little bit premature. However, certainly as a person who sat on the committee, we believe that NISA is absolutely trade compatible no matter what happens at GATT. It is in what we call the "green category," along with crop insurance and everything else in so much as it will have no detrimental impact on trading issues.

As for GRIP, the gross revenue insurance plan, in fairness I think we would have to say that it may be suspect given the current trade regulations, but it is no more suspect than a lot of other programs out there. Very clearly when our committee was putting together GRIP and NISA and looking at this whole issue of the grains industry, we decided at an early date that we would do what was right for Canadian farmers at this point in time to address a critical issue, rather than skate around trade issues and develop something that was going to be trade-acceptable when we did not even know what the trade deal might be. Certainly we were not prepared to lay down everything and be completely clean when everybody else in the world is playing games too.

So I think in answer to that question, Mr Kwinter, I just want to say that when everybody else lays down his internal supports, then Canada will clearly be doing the same. It may well be that somewhere down the road when we have resolved some of these trading issues there may need to be modifications. That is the right time, in my mind, to do that but not now. We have to have a program there to help our farmers in a time when they badly need it.

**Mrs Sullivan:** There are a couple of things that I want you to elaborate on, particularly in relationship to farm credit. I recall that in the 1990 budget, and I think in the budget before that, there was about \$50-million worth of funding for the Ontario family farm interest rate reduction program and son of OFFIRR. In short-term funding, a



looking for a similar program in terms of interest rate reduction programs? And at what would you estimate the cost of this year, given that the estimates I have seen are that the total debt will rise in the upcoming fiscal year?

**Mr Weaver:** I think as Roger has spoken of, we are definitely looking at two parts. Given the realities of developing a long-term program, we are definitely looking at a short-term program for this year; you know, something that is going to keep the cost of lending down to a reasonable level.

I do not know if Cecil is going to have any hard and fast numbers for us right now. Obviously some of the cost involved is going to impinge on what the interest rate is. Fortunately, we see some creeping down in the interest rate, and that is good. It is good for us as farmers because, under any program, all of the debt is not going to be covered but, at the same time, it is going to be good for the government because as interest rate does slip down, it is going to mean less of a burden for any programs. Do you have any hard figures you could add, Cecil?

**Mr Bradley:** No, other than I suppose during its large payout, I believe the OFFIRR program paid out something in the neighbourhood of \$67 million or \$68 million. During its peak payment year the OFFIRR program paid out approximately \$67 million or \$68 million. I think if you were to check the figures now you would find that farm debt is not much changed but the interest carrying cost attached to it is somewhat higher, so to get the equivalent level of support that was provided by OFFIRR in what farmers would call its best year would probably cost something in the order of \$70 million. But of course there is judgement that needs to be exercised in what is an appropriate floor level for interest rate and how targeted the assistance is in terms of what sorts of farm operations are eligible for support.

**Mrs Sullivan:** Okay. That was going to be the next question. What would your best recommendation be for eligibility?

**Mr George:** Well, certainly we were not too impressed with the last one, where the endeavour seemed to be to spread it out as widely and as thinly as possible. Clearly it has to go to those farmers who need it, and so I think OFA is quite prepared to sit down with the minister and make suggestions as to the groups that should be targeted along, as I am sure there will be suggestions from other commodities in that regard.

The other issue comes down to the extent to which that money goes to help the banks, and I think in some of the past programs there has certainly been some, I hate to use the word "gouging" but it is the only one that comes to mind at the moment, where banks have not necessarily given farmers the best interest rate in town, simply because they know that those farmers are going to be able to cover that interest spread from a provincial government program. Clearly when we have only got a limited amount of government funds, and we are always concerned about that constraint, then we want to make sure that the beneficiary of this thing is going to be the farmers of Ontario and not the Canadian Bankers' Association.

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**Mrs Sullivan:** That has certainly been the situation in my community. I want to move on to the kinds of farm credit organizations that exist in the prairie provinces. You have mentioned that over the longer term you would see those as viable operations. How would you see them working in conjunction with the Farm Credit Corp in Ontario, and what kinds of moneys do you think should be put into a farm credit operation?

**Mr George:** The OFA has said in both its brief to Mr Hayes and also to the national farm finance task force that we are prepared to go with some sort of a cost-sharing national farm finance program, but very clearly we are interested in making sure that the federal government actually puts real money into this thing and does not just provide a shopping window in the name of the Farm Credit Corp.

The federal government has got to put something in its storefront and not just offer us the storekeeper and his assistants. At the moment we see the Farm Credit Corp as basically a store with a lot of attendants and nothing to sell. It really bothers us to turn to the provincial government and say the feds have given up on farm credit so the province has to do it all, because very clearly that was not the original commitment.

I am hoping, and I think it is getting to be a slimmer hope by the month, that the feds will indeed reconfirm their commitment to supplying core financing at affordable rates on a long-term basis. But in the absence of that, as we said earlier on, I think we have to work with the provincial government to see just what we can do to create a pool of money to make sure that when farmers enter into a long-term, 20-year plan for their farm, they are going to have matching capital requirements.

That is the real problem now when we enter into that, buying a farm and thinking we are going to pay for it in 20 years, with no idea at all whether interest rates are going to be 10% or 20% over that period of time. Again, a lot of this has to come back on the federal government, but given the situation there, I think we have to look at all sorts of options.

It is clear in my mind that there is no one single fix for this thing. I think it is going to take a whole basketful of different types of programs for different situations and we need to be looking to see where there are other sources of money. We need to be looking at the tax system. Is there any way we can go back to the old agribond proposal, where investors could get a break on investing in agriculture at lower rates? At that point in time we were looking at fleshing out some 7% or 8% money because investors would get that type of rate.

We should be very frank. There are a lot of wealthy farmers out there, farmers who would gladly retire or sell their farm and reinvest back in their industry. So we want to find, if we can, ways in which these retiring farmers will either pass on that farm to the next generation or else will sell it to someone and take back the mortgage at lower than market rates, because this industry cannot stand 16% interest rates. It can barely stand 10% interest rates. I think



it is probably one thing that some members of the Legislature do not understand, the difference between our industry and industry as you know it.

**Mrs Sullivan:** Can I just ask one final question, also on the credit issue, relating to farmers coming into the industry? At one point last year, as I recall, the OFA began to argue that with appropriate stabilization programs, a program such as the beginning farmer assistance program would not be necessary. Do you concur with that?

**Mr Weaver:** I have been working somewhat in that area. The costs of getting into agriculture, as I am sure anybody who is at all involved knows, are immense. The stabilization programs are going to be beneficial, I think, for developing an ability to plan, because as Roger talked about the idea of having long-term credit policies, right now we see commodity prices going up and down. It is the realities of agriculture today. We are talking about lower margins per unit and the need to produce higher volumes. Those are just the realities we face.

As for your direct question, do we see that stable incomes are going to be adequate for incoming farmers, I think we have to be very careful with that. Beginning farmers have some real needs there that have been addressed with BFAP. They have been addressed very poorly in the past program, which addresses the farm stock program. So we will see a likelihood of some sort of program coming up.

I think this is where we are talking about the possibility of targeting programs. We are presently going through a discussion process within OFA about where our recommendations should go as far as where and if things should be targeted. If we are going to have perhaps slightly larger weighting of targeting of credit policy towards the incoming farmer, then that might be suitable and we will not have to have these other farm-start type programs that appear now and again.

I have been a farmer for 15 years. It does not seem that long. The ability or the need for us to be able to plan, to have some sort of level—we know there are going to be ups and downs in commodity prices and there are going to be ups and downs in interest rates, but to take some of those peaks and valleys out is very crucial to us, because we just cannot stand the 50% or 60% changes in commodity prices that we see. I think that is why we are after many of these plans that we are looking at here.

**Mr Bradley:** I would supplement Bill's answer to the question by pointing out that there is an independent rationale for beginning farmer programs, even in the presence of very good stabilization programs which GRIP and NISA promise to be, because beginning farmers generally have disproportionately higher costs in their early years of operation, particularly because of financing and of course particularly in these years when interest rates are where they are.

They also unfortunately oftentimes have below average yields because they are getting into the business and they are trying to establish themselves. They may not have a command of the management skills or the machinery or the land base that they are working from. Since the GRIP

program tends to be driven by farm yields, that would suggest that a beginning farmer might not be getting the full benefit of the protections that GRIP can provide. So I think there will continue to be an independent rationale for entry-farmer assistance.

**Mr Jamison:** I would like to get back on the impact so we understand the impacts. I know you have lived through a surplus here of both the free trade and gas situations on agriculture in general. That is the first part of the question, to give us a real feel for how that has affected you over the last number of years. The second question have really dovetails that in a smaller sense, and that is how we stand as far as how the provincial government has performed in relation to other programs applied in other provinces; specifically Quebec, for example. Those are the concerns.

**Mr George:** Maybe if I can take the last question first, if you want to start comparing Ontario's agricultural programs to the province of Quebec, we are not even in the ballpark, and when you start talking about a level playing field, we are not even near the stadium, never mind saying whether the field is level or not.

We were in Quebec last week. You go there with our general farm organization, the Union des producteurs agricoles, that is holding a \$1-million conference next week to look at rural development. It is an incredible thing that the farmers are doing and I commend them for it. They are driving their own destiny there in Quebec and Quebec is very clearly getting itself in a position where, if it goes for sovereignty, it is going to have the infrastructure there to be self-sufficient, and not only self-sufficient but will be an exporting nation. Quebec is a prime example.

Alberta, Saskatchewan and Manitoba are all agriculture-based economies and they have done tremendous things over the years, not only just in finance, but in other programs particularly in the livestock sector in Alberta, to encourage their industries and build up modern competitive industries.

I think that as a major agricultural province, Ontario is just about bottom of the pile. We have constantly pointed that out and it is one of these things that just tends to get glossed over. The only thing that saved our industry, quite frankly as I said before, was because we are so diversified in Ontario and we have so many other options. There are jobs there for our farmers to go and supplement their income. You can all see the tragedies happening, particularly in Saskatchewan where it is a completely wheat-based economy and there are no options. Heaven forbid that our industry ever gets into that state.

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To answer that question shortly, Ontario has been prophetic so we are not here—I was talking to the minister recently and he is worrying about the budget. We are looking for more money, not less. I think this would be of provincial importance, of importance to the provincial economy that this be considered very seriously, regardless of the fact that we have some major budgetary concerns in this province. The options, as I said before, in the long term are going to be a lot worse if we do not deal with



the issue of where we are on trade and whatever, one issue that comes to mind as a result of free trade is this heightened awareness of competitiveness, where particularly in the food processing sector, processors are scrambling to meet the challenge of United States competitiveness as tariffs are removed.

My research and development has been involved in the national task force on that exact issue on competitiveness and is able to speak to it tonight. The other issue of course is the unresolved GATT negotiations, where the impact of it thus far has been to create a lot of uncertainty, particularly in the supply-manage sector where many dairy farmers and people who come under those jurisdictions do not really know what the future holds. It makes their bankers nervous and they are nervous.

I would suggest that a lot of plans on those farms are on hold until GATT is resolved and we can hopefully secure our supply-manage system under GATT. The whole issue of these export subsidies, which have knocked great holes in the profit margins of grain farms, just has to be resolved, in my mind. It is going to be a tough challenge and the next couple of months will see whether it can be worked out or not.

**Mr Phillips:** On page 5 of your document I think you say that the \$100-million credit program of the new government, if I read between the lines, will go a long way in the next year in helping your credit issue. Is that a fair conclusion?

**Mr. George:** It depends what we are talking about with the \$100 million. If it was \$100 million into an interest rate program, yes, that would indeed go a long way.

**Mr Phillips:** Is that not what is proposed in the document?

**Mr. George:** We are not sure what the \$100 million means. If we are talking about \$100 million of capital for long-term financing, \$100 million is a drop in the ocean.

**Mr Phillips:** But up to \$100 million would be made available, and it is under the interest relief program, so I assume—

**Mr. Weaver:** I think what Roger is saying is that details of how that is going to come out have been sketchy.

**Mr Phillips:** But it is just because it falls, as it does, in the Agenda for People, interest rate relief and up to \$100 million would be available. I assume that is what is meant so that would help your credit issue.

**Mr. George:** The "up to" is the other critical thing. It could stop at \$19 million, could it not?

**Mr Phillips:** No. Then the two things if signed, the GRIP program and the NISA program—I gather the negotiations on are well down the road, the 11 ministers I hear or thereabouts have signed it and that is what we would be watching for next.

**Mr. George:** I think the GRIP one is the one that is under control. That is ready to get cabinet approval from what I make of things. The NISA program is not quite so laid down yet and I would just ask members of the committee to pay particular attention to that and make sure that it does not fall off the rails because of any fiscal

restraint. The only reason that NISA is still around in our debate—we have been talking about this thing for 12 months in Winnipeg—is because of its phenomenal ability to deal with what we call the whole farm issue over the long term. We have agriculture programs come and go. NISA has real potential to withstand the test of time and to withstand the test of trade challenges and all those things as it deals with the whole farm issue and with a farmer's individual accounts.

**Mr Phillips:** Right. I just have these questions, really. There is a big one and a little one. The little one is just again on the number, that each 1% increase in interest rates adds \$9 million in interest charges to Ontario's farmers, whereas I kind of had this mental image of your debt being \$4.6 billion, and 1% of 4.6 is not 9 in my mind. I just wondered how you reconcile that. That is my little question.

The big one is the one you touched on earlier. That is an image I have of the food processing business, that it is heading out of Ontario. That is an image I got, rightly or wrongly. Reading the free trade agreement, I think the prognosis was that if there was one industry going to be hit early it would be food processing. That does not necessarily mean the food producers are in trouble, but you would think there is at least a possibility, and I wonder—it may not be directly related to the budget, although it is indirectly—if the programs we are implementing are not going to help you long-term, if this other trend hurts you long term, if you could help us there.

The \$9 million is the first question and the second one is, should we be really worried about food processing leaving or is there still a good market once they are gone?

**Mr Bradley:** I guess of the \$4.5 to \$5 billion in farm debts that is out there, approximately \$1.9 billion of it is a floating rate, so as the bank rate is adjusted week to week and month to month, that flows through immediately and directly to interest expense. The balance of the debt is medium- and long-term debt, so it will only notch in at a higher rate if in fact it comes to term while those rates are high. But there is still money out in the farm community, long-term mortgage money at less than 10% and locked in for extended periods of time. Not all of the \$4.5 to \$5 billion in farm debt is at the current interest expense.

The food-processing-sector question, maybe Roger wants to take a—

**Mr George:** I think Bill wants to take a stab at it.

**Mr Weaver:** Well, just a couple of comments. I think in general, in the area I come from there are quite a number of food processors, a strong tomato belt, certainly in Kent and Essex counties, and we have seen one plant just shut down—Hunt-Wesson shut down—and the impact of that on neighbours and buying that they did in very recent years. Probably some or most of you have seen a tomato harvester out in the field, a \$200,000 investment in a tomato harvester which cannot be used for anything else. So the impact of the Hunt-Wesson closing on I think about 12 producers has them scurrying around looking for contracts in a decreasing market, and some of them are not going to be able to receive that so it certainly does go right back to the producer.



A smaller example in Leamington was Heinz, I think, closing down a pickle run that was going to go completely to the States. I think we also see the attempt at efficiencies. When Nabisco shut down, a smaller plant in the Leamington area put an expansion in Dresden trying to be as efficient, be as competitive as possible.

I was at a dinner with the minister that was attended by some representatives from the food processing sector and one individual there was commenting to him about the need of the food processing sector to have some avenue perhaps for capital investment or enhanced capital investment opportunities for upgrading some of their plants. He was using the example—I cannot recall what it was—of one particular piece of equipment, very expensive, that would then allow them to maintain a market share in a particular product and at the same time allow the producers in the area to continue to produce that particular product. So there is certainly a need and we are sitting here talking about agriculture. We have realized the need to expand that into the needs of our customers and people we work with very closely in the food processing sector.

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**Mr George:** I would just like to add to that, also never forget that the raw product, the tomatoes or the wheat or whatever, is a relatively small part of the cost of that product when it gets on to the supermarket shelves. Very clearly, a lot of our processors are up against other issues like higher energy costs, higher labour costs, the higher cost of doing business in Canada, period, vis-à-vis their competitors. I would say that has become a more major question in my mind, what the federal and provincial governments can do to make not only the food processing industry but any of our industries more competitive rather than worrying about whether a supply-managed chicken costs more money than it would in the States. So, I think that is something we should bear in mind, because that obviously has an impact way, way beyond agriculture.

**Mr Phillips:** I agree with that. I just wondered if this is an industry which is moving faster than other manufacturing industries and whether that should be cause for concern, because you people know it far better than we do, but you are saying—

**Mr Weaver:** There is a definite concern, obviously, in terms of affecting us. They realize the need to modernize, be competitive. It is affecting us on this year's products, I am sure.

**Mrs Sullivan:** You have not raised these issues in the paper, but I thought you might want to have an opportunity to underline your views of the land stewardship program which, certainly in my community, is an extremely popular and well taken up program. In the budget consultative process, you might want to get something on the table about it.

**Mr George:** We are very positive about all efforts in land stewardship, as I think there has been a growing awareness in the farm community about land stewardship. Whatever governments can do to help farmers to understand new technology and work with it, then, that is good. I do not think it is supposed to be downsized.

**Mrs Sullivan:** I had a sense that there would have been a lot more farmers involved had the program been larger.

**Mr George:** Sure. I mean, we keep coming back you time and time again saying, "Well, great, put another \$30 million into the thing, sure."

**Mr Weaver:** One of the frustrations with that as is that we made applications, made some decisions on it and then because of the size of the budget and because of the popularity of the program, people saw the need for a land stewardship program. Then they came back and they were apportioned a certain percentage of that. I mean, again, personally we made a decision expecting a certain amount of money coming out of that, I guess even 60% of that, which startled some people. That is the way we have to move with the environmental pressures, we understand that, and that is the way it should be, ample economic returns for the farmer. It is one of the things that encourages and allows him to do the things that he should, rather than the things that he will have to do to survive for another year. So I think the two things do run together, the economics of it and the land stewardship program.

**The Chair:** I would like to thank you on behalf of the committee for your presentation on a very important sector of the economy.

**Mr Sullivan:** Mr Chairman, with your permission, just a couple of points. The first is, we appreciate again the opportunity to come before your committee. It is an absolutely crucial committee of the Legislature for an organization like the OFA. Again, it is a \$40-billion-plus industry, the second-largest economic sector in the province. It is absolutely crucial that this committee be aware of that.

The OFA itself is the largest general farm organization in the country. We meet on a monthly basis. The board of directors of 135 is larger than the Legislative Assembly. They are open meetings. We would encourage any member at any time to be in touch with the OFA. It is a very complex organization that attempts to arrive at a consensus on agricultural policy for the province and advise members of the House, ministers of the crown.

It is, again, a process that includes nearly 30 commodity organizations, some of the largest commodity organizations in this country, many of them world class; independent regional or county federations of agriculturalists are represented on the board. The Women's Institute Women's Farm Network are soon to be involved. There are others knocking at the door to be a part of the process.

We would welcome members of the House, of all parties, as we meet with you on at least an annual basis at your caucuses, to share with you the vision of agriculture, to take advantage of the opportunity of working with OFA. We are right here in Toronto. The board meetings on a monthly basis are always held in Toronto. Any member of the Legislative Assembly of Ontario is always welcome to our board meetings. We would be delighted to have you there and share with you some of the struggles that face the farm families of Ontario. This committee is very important to us. Soon—next month—we will meet with Mr. Laughren as Treasurer.



I know that the stories you have heard in this room are tough stories from a variety of sectors in the Ontario economy, whether it is in health care or education or social services, but agriculture is crucial to the health and vitality of Ontario's economy. We would want to thank you again for that opportunity and pledge to you our willingness to work with all members of the House and all parties to

advance the cause of farming and strengthen the economy of Ontario. So, thank you very much, Mr Chairman, for this opportunity.

**The Chair:** Thank you. The committee is adjourned until 1:30 this afternoon.

The committee recessed at 1237.

## AFTERNOON SITTING

The committee resumed at 1339 in committee room 2.

## MINISTRY OF COLLEGES AND UNIVERSITIES

**The Chair:** We have a rather heavy schedule for this afternoon. I would like to welcome Dr Brzustowski, deputy minister on the card, but I understand a new position.

**Dr Brzustowski:** The card is good for four more days.

**The Chair:** I would like you to begin if you would, sir.

**Dr Brzustowski:** Thank you very much. Let me first of all express my appreciation that the standing committee on finance and economic affairs should take an interest in the state of university and college funding in particular. I welcome that interest, because I think these institutions represent an instrument by which we make an investment in the future. The more people in government consider more broadly the investment in the future in the people who go through those institutions, the better Ontario will be served.

I would like to make my presentation basically in two parts. First, I would like very quickly to hit the highlights of the material that was distributed—this is the package that was distributed—which I think might provide some useful information and useful insights into the system and how it operates. In addition, I have distributed just recently a much more detailed brochure of statistics. You might find later that there are questions that some of the information in there raises. Please feel free to contact me or anybody in the ministry for answers.

In the second part of my presentation, if you allow it, Mr Chairman, I thought I would spend just a few minutes looking into the future and suggesting ways—maybe not even ways—suggesting issues of finance and economics for which we have to prepare ourselves. They are in the post-secondary sector. If you agree, I would be pleased to proceed on that basis.

Let's begin with an indication of how large the system is. I will turn to the third page of the handout, the one called "System Overview." The post-secondary system in Ontario is really quite diverse. It has 15 institutions that we call universities, and in fact if you include certain others in that grouping, the number rises to 22—I will just mention those very briefly in a second—and at the moment 23 community colleges.

The universities range from a very large university which is a few hundred yards from us, which has advanced work, graduate study and research in most of the traditional disciplines, in fact all of the traditional disciplines, right down to very small institutions such as Lakehead University and Laurentian University in the north which specialize rather more.

The universities, I think, are experiencing what is almost now a decade and a half of growth. They are still growing and now have an enrolment—the numbers are in the table here, but I would like committee members simply to think in general numbers—of about 200,000 full-time students in the universities. It is a little more than that, but

if you think of 200,000 full-time students in the universities and 100,000 part-time, these are nice, round numbers work with.

The colleges, on the other side, are much more complicated institutions. Our colleges are quite different from almost all the other college systems in Canada. They are different from the CEGEP in Quebec; they are different from the transfer institutions in the west. I like to think of them as teaching enterprises which cover everything from post-secondary courses leading to diplomas in various fields, including advanced technologies, right through institutions which provide basic life skills to people who are being helped by government through various assistance programs.

The numbers in the table are in a sense a little bit misleading, because they underplay one role of the colleges. The number 217,000 listed for part-time students for part-time students taking post-secondary programs. We estimate that there are another 400,000 people taking non-credit part-time studies at the colleges. If you inflate the numbers by that amount, then in the total you would see that something in the order of one million Ontarians each year are clients of the post-secondary system, either universities or colleges, either full-time or part-time.

The system is supported through two sources of revenues. One is the operating grants from the government of Ontario, and the numbers are indicated here, something in the order of \$1.8 billion for the universities and approaching \$800 million for the colleges annually. In addition there are tuition fees paid by students. Although that number is not explicit on this page, the tuition revenue is in the order of \$500 million per year, about \$400 million plus on the university side, \$100 million or so on the college side. So half a billion roughly in tuition fees, something in the order of \$2.6 billion in transfers from government and fund of about \$110 million in capital, as you can see.

One of the points that is often made by the institutions in approaching government is illustrated on the first chart which is on the next page, "The Ontario Government Budget Dollar: Expenditure Forecast 1990-91." The point that is often made by the institutions is that in the spending of government dollars the post-secondary sector is at a lower level now than it once was, and there are explanations for that. Nevertheless, we see here that of the expenditure dollar, 19 cents are devoted to education and of those 7 might be listed in the post-secondary area, including 1 cent for skills development. I list that among the post-secondary activities because it does involve the colleges as well.

Now, whether that number is the right number, whether the historical trend is justified, these are moot issues. One can formulate policy on many bases, but the fact is that the percentage of provincial revenues devoted to post-secondary education has been declining and the colleges and universities of this province frequently remind government that that is the case.

If I may turn to the first bar chart, this is the way that the expenditures of the Ministry of Colleges and Universities are broken out by the categories I used in the estimate



process. The point I would like to make is that student support is quite a significant amount; in fact, it is \$220 million in 1991. That amount of student support is taken by about 100,000 students, and that amount represents the cost to the province of Ontario of providing, as you will see later, almost twice that amount of support, given that some of it is in loans. So about 100,000 of those 200,000 full-time, post-secondary students receive financial support through OSAP. The Ontario student assistance program is actually an umbrella of a number of programs, and I will touch those.

You can see from this particular presentation that university support, which includes capital and includes the cost of running the programs, college support likewise and student support dwarf the amount spent on administration in the ministry. I must say I am very proud of that at times like this when I am meeting with a committee. The ministry in fact does transfer over 99% of its total budget to the institutions and to individuals.

There are times when I am less satisfied with that process and that is when we are asked to do things which require resources, because this particular ministry is very inefficient. It may be some measure of efficiency in government, and if it is, then MCU takes first place. My colleagues enjoy my boasting about that. They feel things would be better if we transferred less and had more people to carry the load, but that is how it is.

The next chart shows the breakout of the sources of operating funding available to the institutions. Now I would, to explain these charts, point out that the colleges engage not only in post-secondary programs funded by the Government of Ontario and by student tuition, but also in programs under the Canadian Jobs Strategy which attract some federal funding. They also do some small amount of teaching and training which attracts industrial funding. So there is a substantial "other" category, but most of that would be federal dollars in the CJS.

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On the university side, most of that "other" category would also be federal dollars and it would be federal dollars tied with the research activities of the institutions. You can see that in the case of the universities tuition is a much larger percentage of the total than in the colleges and the "other" source of revenues is much smaller.

I am sure you are aware that there has been a lot of discussion about tuition fees, and much has been written and much has been said and much has been carried on pocket signs on that subject. If you look at this diagram, there is a useful conclusion that one can draw: simply that to increase college revenues by 1% one would have to increase tuition by 10% because tuition represents one-ninth of college revenues. On the university side it is very close to needing to increase tuition by 5% to increase revenues by 1%. There is that difference in the multiplier. Whenever discussions of tuition are being entertained, I find it very useful to keep in mind this ten-to-one multiplier for the colleges and the five-to-one multiplier for the universities.

I mentioned at the outset that the post-secondary system has been experiencing growth. In the bar graph the

number of full-time students illustrates that for both the universities and the colleges. The colleges have shown a spurt of growth just in the last couple of years; in fact, the growth this current year has been something in the order of 5.6%. The universities, as long as I can remember—and that is getting on to about 15 to 20 years now—in projections of enrolment, the enrolment was always going to decline after another two years. It never has. It has continued to grow; there have been plateaus where the growth was slower. A diagram such as this really flattens the presentation, it does not allow you to pick out the plateaus.

Nevertheless, more and more of our young people are choosing to go to universities. It almost seems that the bachelor's degree has become an aspiration for a very large number of people, somewhat parallel to what might have been among my classmates at the time when I was finishing high school, grade 12. One could get quite a decent job at that time—I am sure this dates me—with grade 12. In fact, jobs with career paths were open to people from that level.

These days, I think almost any full-time job requires at least grade 12, maybe some post-secondary, and a job with a career path that is visible requires rather more than that. A lot of employers are telling us that they simply do not hire people who do not have diplomas from the colleges or degrees from the universities, and that is a phenomenon which seems to be taking hold more strongly.

I cannot make any prediction that I would have faith in of what will happen to enrolment in the universities and colleges, and one of the reasons for that is that a component reflects immigration. A lot of our recent arrivals place a great value on post-secondary education, and their participation rates tend to be as high as their wealth allows.

Most recently, there has been just a tremendous growth in the participation rate of women in all sorts of university programs, with the exception of the professional programs in technology and engineering. But even there, the growth has been much greater than historical. There has been a growth in the participation rate of students from rural areas, and again it is hard to explain that. Nobody predicted it. It is hard enough to explain after the fact.

I see no basis for any firm prediction that this period of growth will end in some magic way. In fact, I think that if one looks around at the various equity measures that have been implemented and additional ones that are being proposed, not only to provide access to the post-secondary system but to provide access and a successful completion of a program, then when those measures succeed, as I am sure they will, participation rates will increase even further and the enrolments will reflect that.

I think that there will be many, many factors which will contribute to changes in enrolment, I expect to a growth in enrolment in both colleges and universities, and not the least of this will be the success of various social measures designed to promote participation. So, Mr Chairman and committee members, please do not look for a flattening of this sequence of bars. I do not think it will happen.

The next figure, showing operating grants for a full-time equivalent student, is something which is a fact. These are operating grants expressed in constant dollars.



They indicate in a way which is quite unmistakable that the purchasing power of the institutions per full-time equivalent student has been decreasing. There was a period of quite pronounced decrease—there has been some recovery since—but in fact the levels in 1988-89 are still substantially lower than they were in 1978-79. One could say a great deal about this. One could say, for example, that there must be some benefits of scale in this. One can also put a counterargument for it that against the economies of scale there are the diseconomies of complexity. Let me give you an example.

A full-time equivalent student represents five part-time students. A full-time student, a single student, will have one admission decision, one program decision, one file in the registrar's office. The five part-time students will have five program decisions, five admission decisions and then five files maintained. The complexity is increasing. One could always say that there is some absolute standard against which one could measure the operating funds provided per full-time student. I really tend not to believe that. I think the people look at incremental year-over-year changes.

Education is a sector in which I believe there are really no normative costs. There are expenses, because one can always trade off quality by whatever measure in what one does, so it is possible to teach a course with 30 students in it; it is possible to have 60 students in there; it is possible to have 200 students in there. What you cannot measure is the output, the quality of the educational experience. That remains one of the great imponderables in the whole area of education finance. I think the best one can do is to compare ourselves with other jurisdictions, preferably ones where we have to compete economically, and those comparisons show that this decline has been too severe, that Ontario's place has slipped in the ranking of the Canadian provinces in the funding for full-time.

The next diagram illustrates that in a way which is quite unmistakable, because this diagram in effect expresses what I just finished saying. These are operating grants to universities per full-time equivalent student, 1977-78 to 1988-89, in constant dollars. The solid line at the bottom of this array is the Ontario performance. The dotted line in the middle of the array is the national average, including Ontario, and the top dotted line is the average of the other nine provinces. These are facts, these are figures that have been assembled with some care. I do not think anybody disputes the figures. This is what they are.

The next chart makes the comparison within Ontario, and it looks at various sectors and looks at an index of expenditures per client served. The language was changed; it would be a little difficult to talk about FTE patients or something of that sort in hospitals, so the language was changed. This is an index of expenditures per client served in constant dollars.

The interesting thing is that you can see that the costs have risen in the hospitals and the schools, they dipped and rose in the treatment of adult offenders, they have declined rather more continuously in the matter of universities and declined quite precipitously, with some recovery, in the colleges.

I suppose one can always look at a diagram like this and explain all the components that go into it, but such a picture does raise interesting questions of public policy. In terms of public policy, is this what the ranking should be? I hope that the committee members will note this particular item of information and maybe devote some of your attention to it.

At this point, if there are any questions on the number, I would be most happy to fill anybody in before we go to what seems to be a somewhat different set of issues on the next page.

1400

**The Chair:** Are there any questions?

**Mr Curling:** The recession places a heavy burden on the colleges and universities, meaning that instead of finding work now people go back to school. You expect the enrolment to increase more now, do you?

**Dr Brzustowski:** Yes, I think there will be pressure for people to go back and maybe finish off programs that they had not finished before or to acquire new skills. Yes, indeed.

**Mr Curling:** Are your figures in any way in your presentation for your next budget making provision for that, or has that been indicated in your budget?

**Dr Brzustowski:** To the extent that one can, yes, I think that our presentation for the next budget will reflect that as a pressure.

**Mr Curling:** My last question: Would you say that the colleges suffered more from receiving less money than the universities over the years, in the last 10 years?

**Dr Brzustowski:** I think it is evident from the figures I looked at just recently that the funding available per client served or per FTE student declined much more deeply in the colleges than in the universities.

**Mr Curling:** My real last question: The money that is given to the colleges is less, as you said; psychologically would it not be more—let me put it another way. The clients that are served in colleges are really on the sort of survival base of getting better jobs. In universities, let's say that the students have acquired good academic skills and would survive. I do not know how you would put a ratio to that. If \$1 was cut from the college and \$5 cut from the university, it would serve a more severe blow there for those.

**Dr Brzustowski:** It would be a larger fraction of the total operation. As you can see in the trend that I just mentioned, in fact the two lines are converging. The colleges are being brought much closer to the universities.

I do not have the figures in front of me and I do not have a chart, but committee members might find it interesting that—these are very difficult numbers to get—but I think if one took, for the high schools, the sum of the provincial funding plus the municipal funding per student you would find that that total is greater than it is for a student in the colleges. That was the case in the last year for which we were able to document that, which was about three or four years ago. I have not seen anything happen since that would make that situation change.



**Mr Phillips:** Just because I am not sure what comes next, just to maybe get the questions out, I have a variety of things. I know in your new role you are going to be interested in science and technology and those sorts of things, can you provide us with any advice in terms of what things we should be thinking about financially to accomplish that objective?

The second thing is, I gather that to bring Ontario up to the national average in grants per student might be a minimum of \$500 per student, if I can read the charts right. Is that roughly the number and how much money is that?

The third is just any advice you could give us in terms of how we should view enrolment in our schools. My collection is that about one third of the students do not finish secondary school, one third do but do not finish post-secondary, and a third finish post-secondary. Should we be thinking of whether that is something that is way out of line with what we should be thinking of as a society? If so, that would, I guess, argue for more resources to be placed somewhere in this post-secondary stream.

**Dr Brzustowski:** Thank you for those questions. If I may, could I take the last one first, because really that is what I wanted to talk about in this final little part of my presentation.

I believe that by the end of the decade or perhaps before that, for reasons of our survival in many dimensions, for economic survival, our cultural survival, perhaps our physical survival vis-à-vis the environment, even our psychological survival as individuals, we may need to have a much larger participation rate in post-secondary education than we have now.

Today's figures show, as Mr Phillips has indicated, that about a third finish post-secondary. At the input end, about 60% of those who register in grade 9 show up in post-secondary education, either in college or university, at the end of their stay in high school. With the equity measures that we are promoting, that is, that all groups in our society should find equal representation and an equitable representation of outcomes in our post-secondary system, and the fact that we will need new skills in new areas, many of which we cannot quite yet predict but many of which we can, I think it would be not unrealistic at all to expect that we should have something like 60% of our students proceeding to post-secondary education.

**Mr Phillips:** Proceeding or completing?

**Dr Brzustowski:** Initially I will say proceeding.

**Mr Phillips:** I am sorry. Do 60% not proceed right now?

**Dr Brzustowski:** They do not right now. The reason I say proceeding is that I think we will be very inventive in the ways in which we will make it easier for people, regardless of where they are in the high school system and whether their aptitude is academic or towards more the vocational side of education, to link up with post-secondary education, maybe not initially or immediately, but eventually.

There are various articulation agreements being developed between school boards, on the one hand, and colleges, on the other, to make that happen, to make it easier. I

think that a combination of people coming back in, people proceeding directly, people completing, people perhaps returning to complete, all of that could conceivably increase our enrolments in post-secondary education by as much as 50%. I do not think I am taking a great chance by saying that I expect this by the end of the decade. It may in fact have to arrive sooner.

What that faces this system with in the framework of government funding is qualitative change in funding. I mean, you do not find a 50% increase of provincial funding at the level of a couple of billion dollars through sort of minor incremental changes such as this system has enjoyed over the last couple of decades. Thinking will have to change. I do not know how it will have to change, but I expect it will have to change in response to that situation.

Coming back to your earlier question, Mr Phillips, I think something in the order of \$600 or \$700 per student would bring us much closer to the average. Multiply that by 200,000 students and the numbers become significant.

**Mr Phillips:** What is that anyway?

**Dr Brzustowski:** About \$120 million.

**Mr Phillips:** I am never sure where the decimal goes.

**Dr Brzustowski:** That is where it goes.

**Mr Phillips:** My third question, just to test me on whether I remember these things: In regard to the science and technology, which I believe is the old Premier's Council recommendation and one that seems to be kind of important, is there any advice we should be thinking about for the ministry in that?

1410

**Dr Brzustowski:** Yes. I think this committee should encourage not just government but in fact the people of the province to begin to think about status and recognition according to skills in a more realistic way. The Chairman and I were chatting earlier, and if we compare ourselves with the experience in Baden-Württemberg in Germany, where a master craftsman has much higher social recognition and social status, so much so that it becomes quite a respectable and in fact treasured aspiration in some families to have the son or daughter become a master craftsman, we do not seem to have that. We seem to be unwilling to recognize anything other than the highest credential one can get.

I do not know what the pressures are on that, but there are pressures, for example, on all of the programs in the colleges and universities to increase the level of credential which one needs to enter into practice. Some of that would reflect having to have more knowledge. Some of it, though, reflects a set of attitudes. I think this is a problem in Ontario which we have to somehow get our minds around.

But we should provide incentives to individuals, make it attractive for individuals, reward them in terms of recognition by society when they become expert in a whole host of things, not just university-level programs, but modern trades and a number of disciplines which perhaps require a very eclectic kind of education which might not be found in existing programs or whatever.



We have to recognize skills in those areas where we need skills. We cannot afford a mismatch between the needs of the economy, on the one hand, and the choices made by individuals for programs of education, on the other, when that mismatch is driven by almost irrelevant perceptions of status and social recognition.

I feel strongly about this. I am not able to express this in as compelling a way as I feel it, but I really do believe that if we are going to compete with countries in which appropriate skills are prized and expertise is rewarded with social status, then we must begin to do the same thing ourselves.

**Mr Phillips:** I agree with that and I do not think we have even begun to scratch the surface on that. I know on the Premier's Council we talked about that and I do not think even the start of that has yet occurred, but I personally believe that in about three years there will be quite a mindset change in the province.

**Dr Brzustowski:** I hope you are right.

**Mr Phillips:** It will be driven because of something you do not like, which is an economic—

**Dr Brzustowski:** Yes, that well may be.

**Mr Sutherland:** Talking about growth rates in enrolment, I am just wondering about the physical capacities of our post-secondary education institutions to handle growth rates. You mentioned several and you did not even mention part-time mature students as the group where I think we are going to see the largest growth.

When I stop and think that two universities—the University of Toronto has just completed a \$100-million fund-raising campaign and the University of Western Ontario close to \$90 million, yet even though they are raising those types of sums from the private sector, mainly for buildings, it still seems that we are not going to have the capacity to meet the growing demand. Where are the ministry's projections in that area?

**Dr Brzustowski:** I hope I do not sound outrageous, because the question is an important one, but I think capital is not the problem. I say this for this reason, that at the moment there is construction going on in the university system of a total value of about \$270 million, \$280 million. There was a program of \$40 million over four years called the special enrolment accommodation program in which money was provided very quickly for alterations of the use of space to accommodate the influx of undergraduates, temporary space being created, space being converted to teaching use.

The ingenuity shown by people in the institutions in this area is quite remarkable, and they have not even begun to explore the flexibility offered by expanding the teaching schedule into longer times. Perhaps, you know, you could expand your capacity by 10% by teaching Saturday mornings, for example, in terms of labs and things of that sort. The problem will be that on the human resource side. The problem will be a shortage of people to teach. The problem will be finding those individuals who have both the qualifications in the subject and a willingness to take jobs in these institutions.

A teaching job in post-secondary education in Ontario these days is not a reward from heaven. The workloads are quite heavy. The conditions are conditions under which one has to deal with very large numbers of students. There is not a great deal of administrative support. These are tough jobs. I will venture to say that we will have to compete with the rest of the English-speaking world, particularly with the United States, just to maintain our own base of people who are prospects now, let alone get the additional people. The human resource side is going to be the problem, not the capital. The capital we can solve. There is a lot of ingenuity out there.

**Mr Sutherland:** I wonder if you could comment. It just came out of the post-secondary system last year, but I have a feeling and see it happening more right now with a lot of these property tax coalitions growing within the province. It is something that I think affects both Colleges and Universities and Education. Do we have a real problem in terms of public understanding in terms of what the costs to run post-secondary education or education in general and how we compare, how Canada and Ontario compare with other jurisdictions?

**Dr Brzustowski:** I can offer only opinions on this. They may sound very uninformed, but I will try. I think that because the post-secondary system is so much farther removed from the municipal ratepayer that it is not a personal issue. It is not an issue dealt with by locally elected representatives right in front of the people. That degree of remoteness, I think, removes the pressure. One tends to think of these institutions as being for a more select group. No matter what the criteria of selection are, it is a more select group. In fact, another useful number is that in Ontario we have 1.2 million students in elementary schools, half of that, 600,000, in secondary; half of that, 300,000, in post-secondary. That is the extent of selection, right down to that level.

**Mr Phillips:** Part of that is number of years.

**Dr Brzustowski:** Oh, indeed. Oh, yes, it is just the numbers of people in the system, of course. I am not talking of through-puts; I am talking of the numbers of students enrolled. I do not think people are aware of what the costs are, except maybe those who are in communities that depend heavily on university incomes. Take a small place like Waterloo, which has two universities. Both the student spending and the payroll in the community are very much affected. I think that community would be rather more conscious of the economic impact than anybody else. But in terms of the public having a sense of what the spending is now and what it should be, I would be very surprised there were crisp perceptions on that point.

**Mr Sutherland:** I have one other question, sort of an efficiency question but looking more at the human side. I am getting a sense that you hear, certainly, stories—it is hard to get facts—on dropout rates in first year in post-secondary education. When we are looking at costs and looking at trying to get a handle on that, I was wondering if you have a sense of how we compare with other countries in that area. What directions is the ministry taking to try to deal with that issue so we have a much lower dropout rate?



I know that at university there seem to be many students coming in who feel under a great deal of pressure to succeed while they are there. I think that may be related to cost and other pressures. There seems to be a higher dropout rate in specific programs, and then in other programs it is a question of deliberate attempts to squeeze people out. Are we creating the wrong perception to people when we are saying, "Come and go for this program, but by year two we only want half of you anyway"?

20

**Dr Brzustowski:** This will date me again, but I remember sitting in a classroom maybe 300 yards from here and being told by the professor in my first-year class: "Look to the left. Look to the right. One of you three will be here at the end, but not all of you." Let me try to deal with this in a number of ways.

First of all, the dropout rates are much higher in the colleges than in the universities. One of the reasons this is the case is simply the preparation with which people come to the colleges. There are a number of colleges that have started programs in which they take the first term to prepare students for life in a post-secondary institution, giving them some study skills, doing any remedial teaching that needs to be done in communications, in writing, in whatever. The failure rate of those people who choose a program after completing such a term is much lower. In fact, in some colleges it is the greatest single source of increasing enrolments. So that kind of problem can be dealt with. I think what the ministry will be doing to the extent of its abilities is providing resources for such remedial teaching.

At the university level, it almost varies by institution. There are some institutions that have as part of their educational philosophy that they assign senior and experienced faculty members to teach the first year. This is done particularly in some professional programs, with quite startling effects on dropout rates. It is perhaps not something that all the institutions can do, because sometimes the people who are most experienced in a discipline are not the best people for handling a class of 200 individuals who have just appeared in post-secondary education for the first time. A lot of the measures of that kind are in place. More will be in place; I am quite sure of that.

In terms of comparisons with other jurisdictions, they vary all over the map. The experience is absolutely awful in places like the University of Houston's system, where by law everybody who completes high school in the state must be admitted. Their failure rates in first year are of the order of 70%. The toll that takes in human dimensions, motivation, time lost, effort lost, discouragement for future life must be just dreadful. I am very proud to say that we have nothing approaching that. Mind you, we do not have the same requirement either.

There are studies being done recently in Ontario which are suggesting that a very large percentage of the dropouts, a disproportionate number of the dropouts comes from those people who enter in maybe the lowest 10% or 15% of the students who have been admitted to the institution. In any case, it is a conclusion that almost seems obvious after the fact, that somehow the marks do reflect preparation.

When one is moved from a system where there is a lot of individual attention to a system where one is on one's own, perhaps among 200 other people who are also on their own, being able to motivate oneself, being able to study independently, are just crucial skills. Not all of our high school students have acquired those, obviously. Some remedial, some resource-centred programs, learning resource centre facilities help.

**The Chair:** I would like to interrupt just from the point of view that while this is a very interesting conversation, it does not really go in the direction of giving us any indication of pre-budgetary information. I do not normally do this, but we are running a little bit short of time. We do have the minister coming in who is on a tight schedule.

**Mr Sutherland:** Sure. I just wanted to ask about whether more resources needed to be put in that area, but I think I have got it answered.

**The Chair:** I do not mean to cut everybody else off. I hope there will be time at the end, but perhaps you could move through the other recommendations you are making.

**Dr Brzustowski:** I could speed up. On the page labelled "Pressures," I invite you simply to consider two or three pressures in particular that have arisen that are pressures on university operating grants. Some of them are additional costs mandated by government action. Others are such things as deferred maintenance. It has not been possible for all institutions to maintain their buildings over the years. They just have not had the money. That is becoming a problem.

Faculty renewal is the whole issue of looking now for young faculty members to replace those who will be retiring. I expect you will be hearing a great deal about that issue over the next little while. In most of the subject areas in Ontario universities, 20% of the existing faculty will leave by retirement about two thirds of the way through this decade and 50% within the first decade of the next century. We are talking about thousands of people at a very high level: professoriates, about 20,000 people.

On the next page, "Ontario student assistance program, OSAP, An Umbrella," the key elements are that it is a program of assistance. It is based on financial need. It has a number of components. In Ontario alone among provinces people who demonstrate need receive the grant first. When they have reached the limit of the grant, they receive the Canada student loan which we administer for Canada, up to the limit of that. If they still qualify for additional need, they get an Ontario student loan after that. The \$410 million of support offered to 100,000 students comes at a cost of slightly over \$200 million to the province, of which maybe \$170 million to \$180 million is grants. The rest would be interest paid on behalf of students on their loans.

The next page just has one or two bullet points about the program. Some of the issues: People are eligible only for eight grant periods. A grant period is a term of study. This is perhaps the one aspect of OSAP which is criticized the most because it does not allow people to go into graduate work and get OSAP. It really also makes people use up their eligibility periods if they have studied at the post-secondary level anywhere else, not just in Ontario. So if somebody



comes in with an honours bachelor's degree earned in India, say, in four years of study, that person is not eligible for student assistance under OSAP. At the moment this is the single most criticized aspect of the policy of OSAP.

The ministry still has these problems, not because nobody has had the wit to see that they needed fixing, but simply because the money has not been available and other things were greater priorities within OSAP even. The assumption of a family contribution becomes controversial. There will be a major policy review on the threshold, the level of income up to which the maximum OSAP assistance can be provided.

Finally, committee members undoubtedly have seen some of the publicity surrounding the Council of Ontario Universities' recovery plan. This is on the second to last page. This was a plan put forward to the minister in the last couple of months and it is a proposal from the universities collectively that they need to find an additional \$410 million a year, at maturity, in grants. This would be something which would in fact bring the province to the national average and somewhat beyond. The proposal is that this be made up of an increase in grants and tuition fees.

I should tell you that just about all the stakeholders and the minister's advisory council agree that the funding problem, in terms of the quality of service that can be offered and the amount of service that can be offered in the universities, is of the order of several hundred million dollars. Everybody agrees on that, the Ontario Council on University Affairs, the Council of Ontario Universities, the Ontario Federation of Students, the Ontario Confederation of University Faculty Associations.

I think there is agreement that we are talking about a problem right now which needs, in two or three years' time, an increase of about \$400 million a year in the annual grant. This proposal has a component which is a government grant increase and a tuition fee increase, and since it has been discussed so widely in the media, I thought I would simply inform committee members of it.

It has been brought to the ministry. It has been presented to the minister. It is on the table as a proposal that has come from the system. There have been other proposals, including the proposal from the Ontario Confederation of University Faculty Associations, that fees be dropped entirely, and that is on the table too.

You can see that the stakeholders have a keen interest in doing something about revenues in the university and college system. They do not as yet agree on what should be done about that. If I may, I would stop here and would be pleased to answer any questions.

1430

**The Chair:** I have three questions. I notice the minister has arrived and we know she is on a tight schedule, so perhaps we could have the three quick questions from Ms Ward, Mr Fletcher and Mrs Sullivan.

**Ms M. Ward:** I have just one question. The difference between the grants for the universities and the colleges is about \$1,000, which is fairly significant. Is that justified in terms of costs or does it have more of an historical basis?

**Dr Brzustowski:** There is a very significant area of activity in which the universities have responsibilities and the colleges do not, and that is research. The federal granting councils provide grants, but not the indirect costs of research, so the provincial grants must pick up those. That is the largest reason for the difference.

**Ms M. Ward:** So it is justified on a cost basis?

**Dr Brzustowski:** Yes.

**Mr Fletcher:** I will hold mine, thank you.

**Mrs Sullivan:** I want to ask about OSAP, just briefly. Was the program changed to take more into account the needs of people who are leaving the workforce and need to go back into the school system for retraining and are now able to meet the criterion, including because of family home ownership or because the assumption of family contribution means that the family would have to bankrupt itself before a breadwinner could go back into the system? What kind of analysis have you done on needs upgrading to meet the needs of returning students and the impact that would have on your budgetary request?

**Dr Brzustowski:** The ministry staff up in Thunder Bay, because that is where these people are, have analysed a number of options of extending those to more and more people in need. They tend to come in \$10-million chunks. It is not as good an answer as I would like to give you, but we are talking about—to do, for example, what you suggest, to allow the threshold to be much higher for people who find themselves unemployed, we are probably talking about something between \$5 million and \$10 million to make it significant for a number of people, enough to make a difference, that kind of range.

**Mrs Sullivan:** But in a program that costs \$270 million to the province to deliver \$410 million, \$5 million peanuts.

**Dr Brzustowski:** It is \$220 million. Yes, I quite agree with that. One still has to get it in the allocations.

**Mr Curling:** Just a quick question: I notice that no mention of counselling was in your presentation at that moment. Pressures: Over the years at the colleges, I suppose the dropout rates are indicative of the fact that proper counselling or proper guidance are not given there. Was that one of your pressures?

**Dr Brzustowski:** It is very much a part of the strategies being developed to handle the dropout rates explicitly.

**The Chair:** We do have a couple of minutes. I have been informed that the minister is waiting for the deputy minister, so I will allow the questions that Mr Fletcher graciously ceded.

**Mr Fletcher:** I have a question about colleges and your vision of what colleges should be. I know it is your own vision and not just a model there either. I was just wondering, has Colleges and Universities started the process of moving towards perhaps polytechnical institutes instead of what we have?

**Dr Brzustowski:** They have started a process of moving together and the impetus for that has been most recently the work done prior to the publication of Vision 2000 which really advocates it. For all sorts of good reasons, the



tutions should get closer together and that is happening. It is happening between existing institutions.

**Mr Fletcher:** Such as Conestoga College moving towards, let's say, Doon campus in the Kitchener area.

**Dr Brzustowski:** Right.

**Mr Fletcher:** Moving all the campuses to that area.

**Dr Brzustowski:** And Conestoga College collaborating much more closely in certain programs with the University of Waterloo or with Wilfrid Laurier University. That is happening.

**Mr Fletcher:** What happens to accessibility when you do that? Does that not create more expense for people who have to travel to the campus and perhaps even the residences?

**Dr Brzustowski:** Let me take that in pieces. The collaboration among institutions generally begins with institutions moving to make it easier for students to do something which they have thought up in the first place. It is amazing how inventive students are in this. I think we should take pride in not having put up impenetrable barriers. There are about 3,000 university graduates who are now finishing off with college diplomas. Nobody invented such a program, nobody designed it. It makes a lot of sense—a general education, technical specialty—we just did not do it.

But the whole business of making college programs more attractive and specializing—but this college, because it is close to this university, has a very special program—has the implication which you mentioned. The colleges have been community institutions heretofore and have not had residences. But if such specialties arise, they will have residences because they will attract people from a greater distance. So there are implications for accessibility, absolutely.

**Mr Jamison:** I would just like to address the area of skills development. We talked about a mindset, the change in mindset, what was considered to be a profile development in the future. How much does the co-operative effort pay? I know it is funding in the sense of technology, how technology is advancing in the workplace. How much does co-operative effort bring players together and so forth related to funding?

**Dr Brzustowski:** I would say that nothing short of a very intensive and sincere co-operation among all the players, right from educational institutions, through labour, through the business community, is going to make these changes; nothing short of that. I think Mr Phillips is right that there have been words on this, but it is hard to see actions. There are individual actions, and one can point to a pocket here or a pocket there where it has happened, but think in terms of a massive change in attitude, nothing short of a real partnership where all parties recognize that this is a common interest will do it. I would hope some of this can start happening, and the sooner the better. I do not give prescriptions, but I have that hope.

**The Chair:** Thank you for making your presentation this afternoon.

**Dr Brzustowski:** Thank you, Mr Chairman. I appreciate the chance to speak to the committee.

**The Chair:** Just an announcement to the committee that the Treasurer has confirmed that he will be present on Thursday from 12:30 to 1:30. We have also requested, if it is possible, for him to bring the third-quarter figures.

**Mr Phillips:** I do not think it is worth while being here unless he does have them with him, so I just assume they will be available. That is the whole basis on which we set the date this morning. Is that the case, Mr Chairman?

**The Chair:** I have not had any confirmation that he has the numbers.

**Mr Phillips:** I am just saying to you that the whole reason for his coming, or the major reason, is so that we have some idea of revenue. He announced last week in the media that the results would be available this week. I sent you a note saying I do not think it is worth while meeting—if we can meet him the next day when he has the numbers, that makes sense, but to go through it and then to release the figures a day later, we are wasting our time.

**The Chair:** I can pass that along and we can make sure. If he does not have the numbers, then we can discuss what we will do. We have another meeting this week.

#### MINISTRY OF EDUCATION

**The Chair:** We have with us today the Minister of Education, the Honourable Marion Boyd; Robert Mitton, the deputy minister; Mark Larratt-Smith, the Assistant Deputy Minister of Education, and it looks like there are a few more.

**Hon Mrs Boyd:** And a cast of thousands.

**The Chair:** I would like to thank you for coming and giving us a presentation on what we can expect or what you might be looking for in terms of pre-budgetary consultation.

**Hon Mrs Boyd:** I would like to just begin by saying that we felt it was really valuable for the committee to have some background information on the funding of elementary and secondary education in Ontario. It is fairly complex and it is important for people to understand the education funding model that is currently in place and for us to be able to demonstrate the kinds of pressures that are on that current funding model.

For the first part of the presentation, Mr Mitton is going to do a total finance overview and Mr Larratt-Smith will talk about the operating system and the capital system, and then we will identify some of our general pressures.

#### 1440

**Mr Mitton:** In a very general way, we collect money for education from two sources, one from the general revenue pot of the provincial government, and school boards are given the authority to collect education funds from the local property tax base. So that is how we collect it. In the latter part of this presentation, Mark Larratt-Smith is going to explain the system by which we allocate funds to school boards for education.

I want to just talk about that whole expenditure picture, and revenue for that matter, across the province and in recent years explain a little bit about the magnitude of that. If you have the slides, you can follow along as I go. I am going to speak to the first six slides.



The general magnitude of expenditures on elementary and secondary education in the province is at \$12 billion in 1990, in the last calendar year, and that served a total enrolment of almost 1.8 million pupils and 122 school boards. The provincial grants accounted for \$5.5 billion of that, which amounts to about 41.5%. The remainder of that \$12-billion figure, \$6.5 billion, came from property taxes.

On the second slide, the general areas of finance fall into these three categories. The first one and the second one are the ones that get the most attention; the last one is less obvious. The operating expenditures really represent the biggest portion, and the largest portion of that is teachers' salaries. Capital expenditures are \$540 million and the teachers' pension fund, \$660 million.

On the third slide, the provincial support represents and has represented historically from 60% to 40%, and in 1990, roughly 41% to 45% of total expenditures. The local share of recognized expenditures is about 34%, and the remaining 21% of total expenditures is funded entirely by the local sector, which is not recognized for grant purposes. School boards can raise funds through their property taxes in budgets above the recognized expenditures of the province.

There are five main categories of provincial grants that are shown in that exploded pie diagram. The category 1 grant or the basic per-pupil grant is the largest component and it equals \$3.1 billion. The category 2 grant, equalling \$200 million, provides additional support to boards for the delivery of a base level of service that experience additional costs as a result of geographic or demographic or socioeconomic conditions that vary across the province.

The category 3 grants of about \$1.2 billion are provided as incentive grants to encourage boards to extend programs and services that respond to local needs or meet provincial priorities. Category 4 is the capital slice, \$332 million last year, which assists school boards in financing approved capital projects, including new schools and additions, site purchases, replacements and renovations, and in some places, acquisition of portables. Category 5 covers additional provincial support for education, and it is primarily the province's contribution to the employers' share of teachers' pension payments.

Slide 4, total board expenditures, illustrates the province versus the local share as this has varied from 1980 to 1990. The graph illustrates that provincial grants have increased annually in an absolute sense but that expenditures have increased at a much greater rate. Consequently, the rate of support by the province has fallen during that time. Since 1980, school board expenditures have increased by inflation 84% and provincial support increased by 101%, or \$2.3 billion in absolute terms.

The recognized spending increased by \$4.6 billion, or 120%; the unrecognized spending increased by \$2 billion, or 459%. That is the discretionary spending on the part of boards. The large increase in unrecognized expenditures has contributed to the funding inequity which now currently exists among boards. Mark Larratt-Smith will come back and explain how that happens in a moment.

Slide 5, which is the operating expenditures slide, another exploded pie, pieces of that, instructional salaries

represent the largest component of total operating expenditures, and that is 63%. The benefits associated with the instructional component represent close to 7%; other salaries and benefits comprise about 9%. This is for non-teaching staff. Learning materials and transportation represent 8% and 6%, respectively. Then other expenditures comprise 8% and they include things such as transfers to the capital fund, consultant fees and contract services.

On slide 6, education revenues, education grants make up 41.5% of operating expenditures and the local sector revenues for operating purposes are generated through commercial and residential taxes. That breaks out at residential taxes contributing about 35% of the total operating revenues. Commercial taxes contribute about 24% of total operating revenues. All those are hard numbers to take, but they are important to understand the breakdown and the orders of magnitude. Mark, I will turn my chair to you.

**Mr Larratt-Smith:** What I am going to try and do is take you through how the current model works on the operating side and then talk a little bit about the capital expenditures over the last few years. If you will turn to the page that has this particular diagram on it, I think it will be helpful. It is an attempt to show, as best we can, how the model works board by board.

The diagram on the left-hand side has the amount spent per student and it has boards listed along the bottom. The boards are plotted against that particular expenditure per student. It is a diagram for the elementary panel only, because of course you have some situations where Catholic boards are still not fully extended. So this particular diagram is representative of the elementary panel.

You will note the solid line that runs across about two-thirds of the way up. That is the current grant ceiling for elementary, which is a per-pupil expenditure ceiling of \$3,500 per student. What that means is that the province establishes an equalized mill rate across the province with data that are given to us by the Ministry of Revenue so that the level of local tax effort is the same whether it is in Kirkland Lake or whether it is in Metropolitan Toronto and plots that against the amount of money it will actually raise per student. Then the balance up to the grant ceiling is provided by the provincial grant. So if you will look up the curving line that is plotted there, that indicates the amount of local wealth on an equalized basis that is raised by individual school boards, given that equalized assessment. The balance, as indicated in the diagram, is contributed in the form of provincial grants. The interesting thing is that very wide disparity in local wealth in that equalized assessment, with the Metropolitan Toronto School Board on the extreme left-hand side raising over \$4,000 per student even with the equalized assessment, and with the Kirkland Lake District Roman Catholic Separate School Board raising only \$275 per student.

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There is a lot of talk in the education system these days about negative grant. Negative grant is very visibly demonstrated to you by that little portion at the left-hand side of the chart where the equalized assessment for two boards raises above the ceiling so that the local wealth is such that



equalized assessment generates more than the provincial ceiling.

If you turn a couple of pages back in your package, I believe, you will find what looks like the same diagram with an additional overlay. It really just adds to the story that is on the first diagram. I am not talking about this one. It is the same chart. It is a little further on, but I think it is worth speaking about it at the same time.

This chart is identically the same as the other one except that it adds the plotting of the total expenditure per student. We are still talking about the elementary panel. We are talking of the total expenditure per student by boards related to the provincial grants and the local share. The very up-and-down line that is above the ceiling indicates the total board spending, and virtually every elementary panel is above the ceiling that has currently been set for the province. It also indicates in general terms that boards with a large amount of assessment wealth are more likely to make those extra expenditures than the boards on the right-hand side of the chart, which have very little assessment wealth.

The variations, however, are significant and they would reflect obviously different communities' decisions and priorities with regard to education. They would also in some instances indicate the efforts of separate school boards to remain at the same level of both service and education as their coterminous public boards.

Turning back in your package, you will find a slide which is entitled Summary of Pressures on the Current Model. I think I can summarize those fairly quickly with reference to one other chart. The decreasing provincial rate of support is demonstrated on another chart which is included in the package right behind that first one and indicates that from 1980 to 1990 the overall rate of support has declined on total provincial support. That would include all of the components that Mr Mitton outlined to you. It would not include the pension contribution; it would include capital. That has gone down over that 10-year period from 55.9% to 45.2%.

**Mrs Sullivan:** If you included these teachers' pension contributions, what would those rates of support be in that instance?

**Mr Larratt-Smith:** I cannot give you over the 10-year rate of support. I can tell you that for 1990 the rate would have been 56.9%.

The rate of support on total operating, which is just the operating portion of school boards' expenditures but includes all of their operating expenditures, both those approved under ceilings by the province and those which boards choose to fund and raise above ceilings, the decline in the rate of support over 10 years has been from 52.1% down to 41.3%.

Returning to the summary of pressures, the second point there is the very large wealth differential between boards, and I believe that was demonstrated in the two parts that we discussed in detail a few moments ago. There is an increasing expenditure variance among boards and that certainly is shown by the variety in that total

expenditure line on the expenditure per elementary student.

There has been an experience of double-digit mill rate increases over the past few years and there has been an increase in the number of boards with operating deficits, which has been a problem that the ministry has been addressing over the past several years. I pointed out the negative grant phenomenon and the final item of pressure is an increased backlog of unmet capital needs.

Turning to the capital—

**Mr Phillips:** Just a point of clarification on the provincial rate of support, the \$5.4 billion includes capital and pension, is that right?

**Hon Mrs Boyd:** Everything but not pension.

**Mr Larratt-Smith:** That includes the provincial support rate not including pensions.

**Mr Phillips:** You are sure of that?

**Mr Larratt-Smith:** I apologize, Mr Phillips. I did say it did not include pensions. In fact it includes everything, including the above-ceiling expenditure. The 56.9% is the percentage of approved, including pension and capital. The 45.2% is everything included.

**Mr Phillips:** We used to try to use that number, but it never flew, and I do not think it will fly. I think it is too late. Nice try. The \$5.4 billion is pension and capital.

**Mr Larratt-Smith:** If I could turn to slide 12, if they are numbered in your package, that is the first slide that outlines the capital component of this presentation. That is titled "School Inventory."

It indicates there is currently a set of schools of institutions out there in the province with a replacement value of approximately \$20 billion. That includes 3,900 elementary schools and 800 secondary schools for a total of 4,700 schools. There are currently about 8,300 portables in the system and there are roughly 900 child care facilities operating attached to school buildings.

The growth in school capital needs has been remarkable over the last few years. Prior to 1985, the ministry was spending in support of capital construction in the order of \$70 million per year. Since that time, there has been very rapid growth and that rapid growth has tended to be highly localized in two areas, in the greater Toronto area and to a lesser extent in Ottawa-Carleton.

That has been a function of the baby boom echo, a function of net immigration into Ontario, and that would include both immigrants and movement within Canada to Ontario. It has also been a function to some extent of a growth in kindergarten and junior kindergarten classes in school boards.

The final point is it has been affected by lower pupil-teacher ratios which have either been identified and mandated by the province, as in the case of grades 1 and 2, or have been negotiated as part of collective agreements with teachers' federations.

Provincial initiatives over that period of time have also contributed to the pressure on capital in the school system. The separate extension of Bill 30 has created a number of situations where schools had to be moved, with inevitable



dislocation and with demands for students moving from one system to another.

Child care is now and was mandated several years ago for all new schools. All new schools, both elementary and secondary, would include a child care facility. Pressures been placed on the stock of schools through the introduction of Bill 75 and the creation of French-language schools and, in a couple of instances in Toronto and Ottawa, French-language school boards.

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I have already mentioned the class size reduction in grades 1 and 2 and the extension in junior and senior kindergarten. The renewal of technological education has also placed a particular cost on schools in terms of a need for what are really quite expensive facilities.

The next slide indicates the total requests that have come in in the annual capital expenditure forecast exercise which the ministry conducts with all school boards. In 1985, the request from all boards was in the order of \$398 million. This last year, it has been over \$2 billion in requests.

Turning to the next slide on funding, there has been greatly increased funding from 1985 onward. Initially, \$900 million was granted in 1989 and extended to \$1.5 billion, so that there is, from 1989 through 1993, \$300 million a year being assigned to capital construction. In addition to that, there is \$32 million a year in special capital, related basically to the tech ed and the junior kindergarten initiatives, which has also been committed. In summary, \$3 billion worth of capital approvals have been made since 1985.

Turning to the next chart on capital allocations, this shows the breakout as between the growth areas of the province and the non-growth areas. I should mention that one of the issues that certainly the ministry has to deal with is the fact that the Education Act requires that students be provided with instruction. Where their facilities are simply inadequate for the number of students, that becomes a very high priority in terms of both the school boards' and the ministry's allocation of available dollars.

What that has resulted in is a very heavy orientation of the ministry's capital program towards the growth areas. You will note over the six years from 1985 to 1990 an average in the high 80s or low 90s of the percentage of the ministry's capital budget has gone in the growth area: 88% in 1985, rising to 96% in 1988 and 87% in 1990.

The final slide just summarizes some of the school capital pressures that are currently being experienced in the province. The first one is unmet new school needs in high-growth areas. Even with that very high percentage of money allocated to growth areas, there are a number of needs that have not been met within the budgets available.

There has also been a backlog in renovation and retrofit projects because of the relatively small amount of money that the province could devote to supporting school boards in undertaking those particular activities, and there have been school space pressures, many of them created by provincial program initiatives such as the 20-to-1 initiative or the JK and senior kindergarten extension.

As a final pressure, there are a variety of environmental issues, most of which seem to occur with relatively

little notice, although often they are the result of an old school stock, schools built to standards with materials that would not necessarily be used today but that were used at the time of construction. So there have been a number of issues related to the environment of school buildings, asbestos perhaps being the most widely publicized one, which have created additional pressure on our capital grant program.

**Hon Mrs Boyd:** Our real question is where we come from here. There are a number of education and financial issues that need to be addressed. Part of the problem is that the issues are often fairly complex and they overlap in other areas. Given the kinds of initiatives that we want to make in terms of children's social service needs and all the way in which we overlap with municipal financing and what the interlock is there, it tends to make this already a complex situation that much more complex.

We do not believe that anyone in the province is satisfied or happy with the way in which education is financed. We may have different reasons for being unhappy depending on what sector we come from and what our particular local issues are, but we believe that the system is not working well. It is important for us as a government to invite the province to examine fully ways in which we might alter the current funding arrangements so that they meet need more exactly but also so that the equity issues that arise are dealt with in a fair way.

It is important to have a hearing such as this for people to get some of their concerns out on the table and to ensure that this committee understands where the pressures are for us in the Education ministry. It is our hope that, as we go on through the process of the Fair Tax Commission, we can find ways to relieve the current burden on the property tax base which, I think is fairly agreed across the provinces, is much too burdensome because it takes no account of people's ability to pay.

We need to ensure that we are continuing to provide a fair and equitable opportunity for education in every area of the province and that is indeed a challenge, given the disparity that you saw between the assessment bases in different communities and also within the confines of our decision-making process with local boards having a good deal of local autonomy about the choices that they make in terms of program availability.

The select committee on education finance made a number of recommendations in its third report on directions for reform. It is our belief that those need to be considered very carefully, and the ministry has every intention of pressing for a thorough consideration of those reforms. The funding principles as described in the report on equity, on the adequacy of financing and on the issues around accountability are ones that concern us all. Those are the major areas where we feel the study of education financing needs to be placed.

**Mr Phillips:** Looking back to the big consultation that took place six months ago, if there was one issue that really got hammered on in Metro, it was this one. I think the people of Ontario are expecting a fulfilment of that commitment that was in *An Agenda for People*, certainly



teachers. I look back on the teachers' campaign and it is extremely effective.

The trustees in Metro Toronto ran a campaign and your city, in response to that, said it would fund 20% of the cost of Metropolitan Toronto education and 60% across the province. I think there is going to be, particularly as property tax bills come out and that commitment was made to me six months ago—I am not sure that the Fair Tax Commission and other things are going to work, are going to fly because, as I say, if there is one thing that the trustees in Toronto, trustees in Ontario, the teachers of Ontario and the property tax people of Ontario are watching, it is the 60%. I think they will recognize a study and act not for what it might be.

What is the timetable for moving to the 60%? How many dollars need to be committed this year to do that? Second, I just want assurances that your 60% does not include capital and pension because I do not think that was the expectation of the trustees and the teachers and the public. A third issue is the Metro funding. I think after the election you committed to funding 20% of the public board's cost and I would like to know the timetable for that, because they are the board and you have two of our current members who sat on that board who also made that commitment. The last is a smaller one, but there is a group coming on with us afterwards that I think may be interested in lot levies. I would like to know what the position of the ministry will be in terms of funding facilities through lot levies.

But my three major ones, as I say, which I think are going to be absolutely crucial to the people of Ontario are: first, your timetable on what funds are required to move to the 60%—I think in your agenda you had a five-year timetable, the first two years \$1.6 billion; second, the timetable of commitment for the 20% for Metro public board; third, just assurances that in your 60% you are not including pension and capital.

**Hon Mrs Boyd:** First of all, you are quite right that in the Agenda for People we were talking about a five-year timetable. It is really important that we be very clear that even in the current financial circumstances, we think it will certainly take that full length of time to make the changes and that it fits well with our intention to look at the entire structure, the way in which we collect revenues and the way in which we distribute revenues.

Basically the issue of 60% or 40%, however we want to do it, gets very muddy because of the very difference in assessment base and so on. Obviously some boards get a much higher percentage of provincial funding and others do not. One of the equity issues we need to look at is how it works. When the whole issue of 60% came up, it was to restore the balance that had existed in 1975 of the financing. That did include, at that point in time, as far as my understanding is—

**Mr Phillips:** Easy.

**Hon Mrs Boyd:** I am sorry?

**Mr Phillips:** It included capital and pension.

**Hon Mrs Boyd:** Yes, it is certainly my understanding, in a different way, because the formulae were different.

**Mr Phillips:** The teachers would be interested in that, but go on.

**Hon Mrs Boyd:** Superannuation was in a whole different kind of situation at that point, but my understanding certainly was that the change in the way the funding went meant that that money was separated out.

**Mr Phillips:** So your 60% promise included pension and capital.

**Hon Mrs Boyd:** That is certainly my understanding of it. I stand to be corrected by my fellow members, but we were talking about the total funding.

**Mr Phillips:** The Ontario Secondary School Teachers' Federation will be interested. Go ahead.

**Hon Mrs Boyd:** It is certainly my understanding of it and certainly what I was campaigning on. It was to restore that balance in terms of the costs that the province was putting into the cost of education, to renew the disproportionate share that was coming out of property taxes.

**Mr Phillips:** The timetable for getting the 60%, how much we need to provide this year, the timetable for the 20%.

**Hon Mrs Boyd:** I think I made it clear in the Legislature that we were not in any way prepared at that time in December to make any commitments about the changes this year because the general legislative grant had not been decided. We are still discussing that.

My sense is that given the financial situation, as I have been warning school boards and trustees as I go around the province, we cannot expect a great deal this year in terms of change. It is our position that we need to be not just jiggering with this particular formula, which we do not feel is really the kind of vehicle that is going to make that balance more equitable in the long run. It has been fixed and poked at and changed and so on for a long time.

As we have been saying as we go around the province, we do not believe we can make any great improvement in the situation, if at all, this year but that over the period of time with looking at the whole system and figuring out new ways in which to raise funds and to distribute them indeed we can make a major move within five years. My hope is to make that target.

**Mr Phillips:** So just to clarify, then, you are not going to be moving to the 60% although it was promised in the agenda—

**Hon Mrs Boyd:** I did not say that. I said I cannot tell you that now because the GLG has not been decided yet. We are still working at the figures and still deciding on the transfer payments in all areas, so I cannot tell you one way or the other at this point in time because that decision has not been made yet. But I would certainly tell members of the committee my belief is that if we are able to make much improvement it will not be much of an improvement this year, given the financial circumstances we find ourselves in.

**Mr Phillips:** I have a view on the financial circumstances that will come up later. I think the commitments were made saying there was a recession and I am sensitive



about this because, believe me, those were fairly solid commitments to the school boards, the property tax people and the teachers. I think it is going to be very difficult if progress is not made on them to explain that.

**Mr Fletcher:** Just a couple of questions. I am looking at the back page, "School Capital Pressures." I heard the minister say that school boards would be given more local autonomy when it came to provincially mandated programs. Does that mean more local autonomy when it comes to some of the high-priced programs that the previous government implemented, such as junior kindergarten and some of the tech programs?

**Hon Mrs Boyd:** I am not sure I quite understand.

**Mr Fletcher:** I heard you mention that school boards would be given more local autonomy when it came to provincially mandated programs. I am sure that is what I heard. Did I hear you wrong?

**Hon Mrs Boyd:** No, what I am saying is that there is a fair amount of local autonomy, that the decision-making is made at that level. One of our problems as a provincial government is, because of the way in which the power to make decisions at the local level is very much the responsibility of local school boards, the issue of limiting those discretionary costs of local school boards is extremely difficult for us as a provincial government, as it has been for any other government. Part of the problem we have is that the disparity between the provincial share and the locally raised share grows exponentially if the discretionary costs of a board grow over and above ceiling. That creates some really big problems for us. I mean, in 1975 when we were talking about the 60%, we were looking at a situation where boards were not putting on the variety and the kinds of programs that they now feel they must do.

We also have to remember that in 1975 there were expenditure controls in place by the ministry which were subsequently removed. So the 60% figure, which did include capital costs, was controlled in terms of the expenditure ceilings that were there.

**Mr Fletcher:** As a former trustee, I can mention right now that reaching the 60% figure is not the goal; as long as we start to move in that direction. I understand you are moving in that direction.

One other thing that I noticed was accountability. Is that the accountability by school boards as far as how much they can raise taxes or how they spend their budgets?

**Hon Mrs Boyd:** I think it is both. As a matter of fact, we do have school boards in the province that have knowingly not raised their mill rates as much as their budgets indicated they needed to to meet the expenditures they were proposing to make. That is a real concern for all of us in the rest of the province when other school boards are prepared to do that.

In terms of the accountability of spending, that would apply of course to school boards as well as to the ministry. There need to be really good ways in which we can be sure that accountability is a shared responsibility between local boards and the ministry. I think many local boards feel sometimes that all the pressure has been on them, and what we are saying is that we know we need to be accountable

and we need to be responsible and we are asking the same of local school boards.

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**Mr Fletcher:** Yes. I think that is about time. I think that is what school boards are asking for.

**Mr Sutherland:** On page 5, the graph about total operating expenditures, learning materials are here at 8%. Has that figure been growing as a percentage of the overall costs?

**Hon Mrs Boyd:** Historically, I think it has been between 8% and 10%.

**Mr Sutherland:** With the large input, both at the technological level and with computers, do we see that figure growing?

**Hon Mrs Boyd:** Certainly we are going to be in a position where in order to support that kind of situation, the equipment costs, the training costs, the difference in space requirements, to really fulfil the technical need, that is going to be extremely difficult, in percentage terms, to make sure that that piece of the pie stays intact.

**Mr Mitton:** I think that in an absolute sense there has been significant growth with technology and increased use of technology in the classroom, but on a relative basis everything else is growing so fast as well, in terms of teachers' salaries and other benefits and operating costs, that it does not show in this context being out of proportion, plus or minus 2%.

**Mr Sutherland:** Thank you. The other question I asked it earlier when the Colleges and Universities reported here—the growing trend with these property tax coalitions that have sprouted up across the province, it seems one of their major focuses is education and increases in education taxes at the municipal level. I was wondering if you saw that as part of a lack of understanding by the general public about what it costs to have a good quality education system, and maybe just some comments on how we are comparing with other jurisdictions in terms of funding within the country and maybe with some of the European countries.

**Hon Mrs Boyd:** I think you are quite right that in fact the general public has very little idea how education is funded or what is involved. Part of our argument about the whole system of funding is that it is extremely complex and if you live in Kirkland Lake, this means a whole different thing to you than it does if you live in Metropolitan Toronto and anywhere in between the two extremes.

The whole issue of equalized assessment is extremely difficult for people to understand. I think, as citizens, we do not understand very well how we are taxed and what the purpose of that is. I do not think it is well understood. I do think it is difficult to explain to the average person. However, I must say I think it is something that we need to be much clearer about so that people have a better understanding.

In terms of the other, I am sorry, I have forgotten—

**Mr Sutherland:** Just how we compare with other jurisdictions within the country and internationally.



**Mr Mitton:** In Canada our expenditure per pupil is the highest, but it is in the top two or three. Mark, you help me with this. I believe Sweden and Japan have higher expenditures per pupil than we do, but we also rate the top five or six worldwide in the free world.

**Mr Larratt-Smith:** That is basically true.

**Hon Mrs Boyd:** So we are not in the abysmal position that we are in in post-secondary education and I think need to be aware of that. Where we need to be controlling costs and where we need to be looking at it is in the choices we make about the programs we offer and the way in which local communities are prepared to support those. I think sometimes local communities are not aware enough of what the choice around program means or the choice around building a new school means and what that will eventually mean to their share of the costs of education.

**Mrs Sullivan:** Minister, I was interested in your response to Mr Phillips's question relating to the provincial derating of operating costs. I have some questions relating to capital, but I wanted to clarify again your 60% promise, which you have indicated would take place over a three-year period. For the first time today I heard that that included teachers' pension plan contributions and capital. I wonder if you are also limiting it to recognized expenditures?

**Hon Mrs Boyd:** I am sorry, to the recognized expenditures?

**Mrs Sullivan:** Yes.

**Hon Mrs Boyd:** In the original Agenda for People, that was not the intention.

**Mrs Sullivan:** I see, all right. So, that clarifies that. On the capital side, will you continue multi-year funding? Is that your anticipation?

**Hon Mrs Boyd:** It is certainly, we think, to everyone's benefit to have a long-range plan and that people know in advance and are able to do their preparations in advance. That seems to have worked well. It does certainly add pressures in terms of rapid changes. We are seeing the greatest pressure in terms of capital expenditures, for example, where there have been just rapid changes of population that were not anticipated and children are coming on stream, ready to go to school earlier than was expected. There is not much flexibility with the multi-year planning and that and that is where a lot of the pressure is that we are feeling. But at the same time, in order to plan effectively, it is certainly our belief that the long-range plans are important. It also adds to the local accountability of boards, that they interface with the municipality around planning issues to ensure that that multi-year plan is taken into account when there is an expansion of development.

**Mrs Sullivan:** If you are going to continue the multi-year funding, given that the requests which have come in through the compiling of the lists at the trustee level are significantly higher for this year over last year, would you be looking then to expand your capital commitment this year, say, from the \$300 million that was spent last year to perhaps \$500 million?

**Hon Mrs Boyd:** We certainly know that that demand is very high. I guess we are in a situation where, given our

financial situation, given the revenues as we anticipate them to be, we are going to have to be making difficult choices about the priorities there. I cannot give you a commitment one way or the other because, to be quite frank, the decision has not been made at this point, but we do know that the pressures are very high in terms of capital requests, both catch-up requests, ones that have not been approved before and have sort of been bumped up a year, but also new requests, and that is a serious problem, I think, for many communities.

**Mrs Sullivan:** When you were soliciting the capital lists this year, did you ask again for A lists and B lists, the renovation and the new as well?

**Hon Mrs Boyd:** Yes.

**Mr Mitton:** Yes, we did.

**Mrs Sullivan:** Are you looking at about the same proportion, 87 to 13, or where are you seeing that pressure situation? Are you seeing it coming in for new or are you seeing a substantial increase in renovation requests?

**Hon Mrs Boyd:** I do not think the balance is substantially different, but we know with the aging stock that we have in no-growth areas that it is going to increase substantially over the coming years. We have certainly had lots of warning about that, but I think it is around 15%, 16%.

**Mr Larratt-Smith:** We have not got the final answer on that yet.

**Hon Mrs Boyd:** Yes. The ones we have looked at, it looks as though it is within a couple of percentage points, but that bump has not hit us yet. I think boards, particularly in Metro Toronto but all boards that have an aging school stock, are recognizing, as the universities are, that indeed that is an increasing problem.

The other issue for us is that while we may talk about growth boards as boards where there is potential growth in terms of assessment, there is also growth because of housing intensification in older boards, and we are not talking about new schools there but we are talking about growth in enrolment, and that is creating an enormous pressure in some communities.

**Mrs Sullivan:** For this year's budget, would you be expecting to look at some innovative financing mechanisms that may be outside of the regular routine, whether it is lot levies or whether it is developers providing the school over a long-term lease and so on? Would you be factoring that into your budgetary proposals?

**Hon Mrs Boyd:** Certainly we will be looking at all ways of maximizing the fund-raising, but I would caution you again that it is our belief that we do not want to make major changes until we get the feedback around the taxation commission.

**Mrs Sullivan:** In other words, you will not be making that kind of a recommendation to the Treasurer this year?

**Hon Mrs Boyd:** I would not go so far as to say that. Certainly we know that in order to begin to meet our commitments, we do have to find new ways of raising money and we are considering a number of possibilities.

**Mrs Sullivan:** When will you be announcing the GLGs?



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**Hon Mrs Boyd:** You will have to ask the Treasurer, actually. I know the final decision on transfer payments has not yet been made and is still in the discussion stage, but we are also aware of what pressure that puts on local communities that are trying to budget, so we are trying to do it as quickly as we can. I would expect by the middle of February at the very latest, personally, just in terms of the way the process is going, but I understand that the Treasurer is coming to speak to you on Thursday and you can certainly ask him.

**Mrs Sullivan:** Finally, are you going to be addressing the question of the deficits among the Roman Catholic separate school boards as part of your budget request this year, and do you know what the totals come to?

**Hon Mrs Boyd:** The totals of the deficits? They are not all Roman Catholic boards, just incidentally.

**Mr Mitton:** They are not all Roman Catholic boards and we are doing work with them, so the numbers are changing daily as they work on plans to balance their budgets.

**Hon Mrs Boyd:** Generally, those plans are looking at ways in which they can factor out those deficits over two or three years in order to prevent the cost to the local taxpayers from being exorbitant in one year.

**Mrs Sullivan:** In developing that longer-term kind of plan, would you be looking for an injection which would be an increment to your budget this year, that can be transferred on and then perhaps come back through another route, another clever route later on?

**Mr Mitton:** You mean an injection from the province to help them with the deficit? Not in any way that would put them in an inequitable position with other boards.

**Hon Mrs Boyd:** We are very concerned that those boards that have been responsible, that have pared their budgets to the bone and have done that in a responsible and accountable way, not get the message that that work has been for nothing, that a board that has a deficit and has not done that kind of hard work is going to get bailed out. Now, in some of the situations that have deficits it is not that kind of situation at all. They have been very, very responsible in terms of budgeting, but there has been a change in their assessment base. The North of Superior board is a very good example where, because it has a little gold mine situation that did not work out, the assessment just did not materialize and it put them in a dreadful position. That is a different situation from that of the board that has consciously chosen not to increase its mill rate in the hope that the province would bail it out, or has not taken those tough decisions that so many boards have about the kinds of programs they are able to offer and the way in which they are able to manage what assessment base they have.

**Mr White:** I have several questions, but I am not an economic whiz; I am just a humble taxpayer and social worker.

**Mr Curling:** And a politician.

**Mr White:** Thank you. I am not sure if I understand whether it makes a lot of difference if you are paying 65%,

60% or 55% of the cost of education if my property tax keep going up. My understanding during the election campaign, from the many thousands of people I spoke to who were concerned about this issue, is that they were concerned about their property taxes increasing at a dramatic rate, not about the per cent of the cost for education the province is paying. My concern here, to relate to your Minister, is, in what way can we ensure that there is a direct reflection between the dollars spent at the provincial level and the lack of increase in the property tax or in fact possibly even decrease? We were talking about the autonomous boards that set their own budgets and their own tax levels.

**Hon Mrs Boyd:** Let me be very frank. You cannot and that is why we are saying that under this particular funding system we cannot have the assurance that if we increase our funding, that will necessarily mean that local boards drop their mill rate, nor can we be sure that if local boards were to drop their mill rate for the education portion of the taxes, the municipalities would not step in and take up the slack. That has happened in the past. This is a real issue around surety and certainty, around being sure that whatever moves we make will translate into proper tax savings for home owners.

Frankly, under the current system, the way it is, there is no way for the provincial Ministry of Education to ensure that that is going to happen. We can try to exert lots of public pressure and lots of moral suasion on local school boards around the way in which they raise taxes and how that that rolls over into the municipal area, but quite frankly, our experience in the past has been—and there was one particular point in time when a lot of school boards amalgamated and there was considerable cost savings incurred by that in terms of economy of scale, but in fact the municipalities just moved in and took over the gains in taxes and the home owners got no relief at all. We have real concerns with just jiggling with this number, before and until we have some way as a population to get some control over those expenditures.

Frankly, previous governments have struggled with the same kind of issues. The growth in discretionary spending by local school boards has just been enormous over the past few years, so we cannot make an assurance of that and that is what we are concerned about. When we talk about 60% we always have to say, "Well, 60% of what in terms of that discretionary spending?" But then we always have to look at who decides about that property tax base and it is not us as the provincial government.

**Mr White:** So that is why you have mentioned previous governments having had the same concern. I feel some of a duty in terms of my own constituents, in fact of our government, of ensuring that while they may have had those same concerns, this is a very central part of our mandate. Mr Phillips has reminded us of it several times.

**Mr Phillips:** I am reading it here. You have several school board expenditures. That is your policy. School boards were very interested in that, but it was not part of It was very straightforward in here.



**The Chair:** Excuse me, Mr Phillips, this is not a cue you to jump in again.

**Mrs Sullivan:** It was a perfect opportunity.

**Mr White:** It was, though, it was. Just verifying.

**The Chair:** Mr White, have you finished with your question?

**Mr White:** No, I have not.

**The Chair:** Could we move along? We are running out of time.

**Mr White:** But that would certainly be a central concern of your ministry, the fair tax issue.

**Hon Mrs Boyd:** Very much so. When one looks at the whole issue, unless we have some certainty about that breakdown in cost is and where the accountabilities, we are not going to be able to get that kind of control.

**Mr Curling:** Mr White, it is wonderful to know that you did not omit, I hope you did not omit, that you are a politician too, because the question of 60% of what was the thing we were asking when we were in government. Now I hear the minister is saying too, 60% of what? My question is not that, Mr Chairman.

The Deputy Minister of Colleges and Universities, who preceded you, had concern about dropouts, and counselling was mentioned. In the elementary school system, that was a great concern, but there is another concern. My question to you will be coupled with the other concern too, one of them. I wondered if there is a provincial strategy. I am sure there is a pressure on the fact that also literacy—literacy, to be more specific—that we do not have a great record, and this would answer also my colleague too, the question about how we compare with others. We have a graceful record of illiteracy in this province. Talk about competitiveness, etc and the dropout rates and, as I said, proper counselling and the diverse multicultural society and all that. Is that one of the pressures? Are you coming forward with this budget with some provincial strategy to ensure there will be money needed to do this strategy too?

**Hon Mrs Boyd:** Absolutely. I think it is a very serious pressure and the ministry, as you are probably aware, is carrying on with an initiative that the previous government started in terms of looking at our curriculum throughout to find out what is going on. We are not getting that kind of equity of outcome in terms of the various groups that we have in our schools.

We have very, very deep concerns as a government about the way in which success is measured for students, the reasons why students are leaving school, the reasons why students are not learning in school. You are quite right that a lot of those issues have to do with multicultural issues, with the wide differences in socioeconomic status, the effect that poverty has on children in terms of their learning, and we see that as a very integrated kind of situation and certainly are most interested in pursuing some of the notions in the Maloney report on Children First and how that impacts specifically on education and how our curriculum policies and our literacy policies and indeed the setting of benchmarks can make some real difference

in terms of ensuring a better equity of outcome for our students.

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**Mr Curling:** Am I getting from you then that there will be no more studies really but that we understand what is causing illiteracy, we do understand what is causing dropouts? You mentioned quite a few of those things and the program that is coming forward is a program; it is not a bunch of funds that we put forward to study the problem any more. We keep studying it to death.

**Hon Mrs Boyd:** There are a number of initiatives which have already been undertaken and a number which are planned that are specifically to address that in an action-oriented way. There will of course also be continued study around the curriculum issues, because that was a long-term plan. We were not prepared to interrupt that process, but as that plan goes forward, there are many, many different ways in which communities want to tackle those problems. We want to see what works in terms of the pilot projects that are already going on and others that we are beginning, to see what impact they have on that so that we can have a generalized idea. In an urban community, this approach works best; in rural communities, this approach works best; if we have a high group of people for whom English is a second language, we need to take this tack, and that sort of thing. So we are not trying to have a system that speaks to everybody by being the same, but to have a system that speaks to every student by speaking the language and using the methodology that reaches him best.

**Mr Phillips:** This is the first time I have heard about the general legislative grants not coming out until February. Normally they are out in November. I believe the general legislative grants have been out in November for three of the last four years.

**Hon Mrs Boyd:** I think so. Oh, yes, I think you are right.

**Mr Phillips:** Your official is nodding no. They have been out in November. The school boards will be six tenths of the way through the year, I think, because they set their budgets at the end of June pretty much in shape. I would just make that point. It makes it very difficult for them to manage their finances.

This has been very illuminating for me. I had never realized, because we got really hammered on this 60%. Your 60% includes pensions, capital and it is 60% of an approved ceiling that you will set.

**Hon Mrs Boyd:** You are putting words in my mouth. What I said to you is yes, it does include pensions and capital, and that certainly is so. In terms of an approved ceiling that we will set, there is and has been under the GLG scheme, a ceiling in terms of per-pupil grants. That is not a change, so I am kind of puzzled.

**Mr Phillips:** You should not be puzzled. You said that your 60% would not be 60% of spending, it would 60% of some pre-approved number.

**Hon Mrs Boyd:** I said that what we are going to have to do is get a clear idea and a clear commitment from school boards as to their ability and willingness to control



expenses in a way that they have not been before. We simply have to look at the way in which those expenditures have grown over the past few years. Frankly, no government can allow another level of government to jump up that cost without having some notion of how it is going to meet it.

**Mr Phillips:** Like the federal ministry.

**Hon Mrs Boyd:** Well, there is the other problem of course, because as federal transfer payments drop, it puts that much more pressure. We did not even talk about that particular little intergovernmental problem, but we know that it is facing us all in terms of the caps.

In terms of your question about the announcement of the GLGs, in the past the municipalities, universities and colleges, schools and hospitals sector has been announced in November but the individual allocations have been announced in the spring, in February. In other words, the overall percentage increase has been known, but how that breaks down for the board according to the statistics has not been known until the spring.

**The Chair:** I would like to thank you for your presentation and for coming this afternoon.

#### ONTARIO SCHOOL BOARD REFORM NETWORK

**The Vice-Chair:** Our next presentation will be the Ontario School Board Reform Network. Mr Bennett, would you like to announce your associates there?

**Mr Bennett:** Yes, I will. As chair of the recently formed Ontario School Board Reform Network, I am pleased to introduce our delegation and our submission to your pre-budget consultation process.

For our presentation we have assembled a delegation of Ontario School Board Reform Network trustees representing different public school boards and expressing concerns about financial accountability shared by our reform network members in various parts of this province. The presenters here today are Trustee Bill Crothers of the York Region Board of Education beside me; Trustee Carolyn Parrish of the Peel Board of Education, and Trustee Diane Austin of the Victoria County Board of Education.

First a word about the Ontario School Board Reform Network. The Ontario School Board Reform Network was officially founded in June 1990 in Ottawa as a province-wide coalition of individual school trustees representing a variety of political persuasions but all committed to reforming our system of local education governance. We were founded with 24 original trustee members drawn from a number of school boards, and we have now won the support of trustees in 15 different boards across Ontario, from the Toronto region to Windsor and from Thunder Bay to Cornwall. We are committed above all to strengthening the role of elected trustees in relation to senior administration and to establishing proper public accountability for board program and financial decisions.

The School Board Reform Network is a coalition of reform-minded trustees committed to five basic principles: strengthening the trustees' role, democratizing school boards, improving access to information, promoting reform

coalitions and working with the Ontario Public School Boards' Association to further these objectives.

The Third Report of the Select Committee on Education was released in January 1990 and in it was recommendation 27, which reads as follows: "In consultation with the key partners in education, the minister should examine the responsibilities and duties of directors of education under the Education Act and any other relevant matters in order to clarify and solidify the authority of trustees of school board program and financial decisions."

It was really recommendation 27 that gave birth to the Ontario School Board Reform Network. It struck a responsive chord among reform-minded school trustees in various corners of this province. It sparked an adverse reaction, I should mention, from the directors of education. And it also convinced some of us that now is the time to take up the cause of local education governance reform.

We are here today to raise a number of financial issues and to propose reforms in certain areas. Among the major issues that we have chosen to address are: the financial management and auditing of school boards, the school board fiscal year, the level of local funding for education, school board capital needs and education lot levies, and capital allocations for school renovations and repairs. We believe these are fundamental issues and issues that your committee should examine, and we hope that you will do so.

I would like to now introduce Trustee Bill Crothers who will address the first two issues.

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**Mr Crothers:** I would like to talk first, if I could, about something about the scope of audits of school boards. In January 1990 the select committee on education in the report referred to by Trustee Bennett made its third report to the Legislature. The focus of that report was education finance, with one section being devoted to local governance, entitled the Question of Accountability.

Recommendation 25 in that report reads: "The office of the Provincial Auditor should be encouraged to carry out comprehensive audits of boards on a regular basis and report its findings and conclusions to the public and the minister." Today I would like to spend some time discussing recommendation 25, which is also very much concerned with the issue of governance of school boards.

Section 207 of the Education Act requires all boards to appoint an auditor, and specifies that the auditor, "shall perform such duties as are prescribed by the minister and by the Minister of Intergovernmental Affairs and also such duties as may be required by the board." In most, if not all, school boards in the province, the director of education is also the secretary-treasurer of the board, and there are very few, if any, school boards that assign additional duties to their auditors. Control over the process is very much in the hands of the director.

I can illustrate with an example from my own board, the York Region Board of Education. Like many boards in the province, my board does not have an audit committee and despite concerns raised by some of us, the total extent of the exposure of the board auditor to trustees is about 15 minutes per year during a visit of the auditor to the board.



represent the financial statements. Despite asking for one, we never seen a management letter from the auditors to the board. My board does not have an audit committee because most of the trustees do not understand the need for the role of an audit committee and the director does not encourage the creation of one.

My board had a budget in 1990 of \$381 million. Clearly, this situation is not in the best interests of the taxpayers of the region or the province. While the legislation provides the mechanism for the board to become more accountable, it has chosen not to do so.

In 1990, the Provincial Auditor audited two school boards and has undertaken to audit six boards in 1991. Among the findings identified in the reports of the 1990 audits were the following: Controls over purchasing were not adequate; some Ministry of Education grants were not spent according to terms approved; errors in calculations that led to overpayment of accounts; weaknesses in budget processes; non-compliance with the Education Act; weaknesses in portable asset control.

The audits conducted in 1990, and those planned for 1991, were far from comprehensive audits, and only in the area of transportation expenditures did they touch on the value-for-money examinations. It would be unfair to attempt to use any of the early audits for the specific purpose of criticizing the practices of a specific board, because at the moment, the audits, limited as they are, are being conducted in the absence of provincial measures and standards.

Most of the situations identified are correctable, and many were not known to the trustees of the boards. However, school expenditures are increasing tremendously and constituents are becoming much more insistent on evaluation and accountability for the system. Increasingly, they want assurance that moneys are being expended properly and productively.

Even where audit practices are expanded, very rarely do school board audits either comprehensive or value-for-money audits, and very rarely do school board audits relate to actual expenditures to budget approvals. Most school board audits do little more than indicate that the financial statements of the board reflect the actual expenditures of the board.

In our view, current audit practices are not sufficient. The Third Report of the Select Committee on Education compared the recommended comprehensive audits to the operational reviews conducted on the 51 children's aid societies in the province. By coincidence, I am and I have been the chairman of the board of the York Region Children's Aid Society for a number of years, and I can make a few observations regarding those audits.

First of all, most CAS directors did not openly welcome the operational reviews in advance; most were, however, appreciative of the process afterwards. While the process initially was time consuming and initially traumatic, the results were ultimately seen to be beneficial and to exercise not a witchhunt.

Fourth, in 1989 the total expenditures combined of all 51 children's aid societies in the province was \$289 million. There are more than a dozen school boards in the province that currently have budgets equivalent to that.

Clearly, if trustees are to exercise any semblance of responsibility for the expenditures of their board, and if there is to be any meaningful level of accountability to the constituents of the board, certain fundamental practices are required.

First, in the area of board audits, all boards should be required to have an audit committee, whether it is trustees only or trustees plus members from the community. Second, all board audits should be required to compare board purchasing and tendering practices to board and/or ministry policies. Third, all board audits should be required to measure, quantify and comment upon budgetary transfers that are made without specific board approval. Fourth and last, the degree of sophistication of board audits should be related to the size of the board budget. Many board budgets are now in the hundreds of millions of dollars.

In the area of the Provincial Auditor, we believe that the scope of the audits done by the Provincial Auditor should be expanded: (1) They should be comprehensive in nature. (2) Audits should include value-for-money examinations. (3) The budget process itself in the board should be audited. (4) They should be regular in nature.

We understand that the standing committee on public accounts, in its second report of June 1990, also recommended that all audits, including school board audits, be value-for-money audits and that the audit branch has prepared legislative amendments to support those recommendations. We firmly believe that subjecting school boards to regular comprehensive audits by the Provincial Auditor will provide significant impetus to local boards to strengthen their own audit practices and ultimately lead to trustees recognizing and accepting more responsibility for spending decisions within their boards.

In the area of the school board fiscal year, I would offer the following comments. One of the difficulties standing in the way of trustees understanding and accepting more responsibility for policy and spending decisions of boards of education, and therefore being more accountable to the community, is the fact that many of the decisions made are not reflected in a single board budget, but rather the impact is spread over several budgets. Most policy and spending decisions are made on the basis of the school year, while in the current situation school board budgets are based upon the calendar year.

We believe that altering the budget year to correspond with the school year will help to strengthen the role of trustees in the boards and to increase the accountability of trustees to the communities. We would recommend that the government give some priority to examining the feasibility of changing the board of education budget year to correspond to the school year.

In the area of education finance, we share the same concerns as do virtually all groups concerned about public education regarding the level of education finance in Ontario. We believe that the government must address the issues of the level of grant support to the boards, grant ceilings, the impact of provincial policies on local boards of education and the appropriateness of the property tax to finance such a large share of education costs.



We are, however, encouraged with the promise of the government to create a Fair Tax Commission, but would suggest very strongly that school boards have significant input into the deliberations and the outcomes of that commission.

**Mr Bennett:** I would like to now ask Trustee Dianne Austin of the Victoria County Board of Education to address the issue of financing capital projects.

**Mrs Austin:** I am just going to speak on a section of capital funding that has to do with renovations. Presently, the capital funding grant system moneys are divided into three separate categories: (1) site purchases and new pupil places, (2) renovation and replacement costs, and (3) program upgrading.

There is a demand that exists for new pupil places across the province due to overcrowding, but at the same time some of the demand for funding of new schools is driven falsely by current ministry practices and policies. The small amount of funds available for renovations is producing an artificial demand for some new school sites. In many cases it is much cheaper to repair and upgrade an existing facility than to construct a new building.

Why, then, do boards of education decide to abandon existing facilities and replace them with new structures? Let's examine the factors which influence board decisions when faced with a school in need of renovation.

#### 1600

1. The chance of receiving funding for new construction is far greater than receiving funding for renovations. Of the \$300 million allocated for capital grants in 1988, \$15 million or only 5% of the total went towards the cost of renovating existing school facilities.

2. Boards of education receive substantial busing subsidies from the province. Thus, increased busing to a new school facility has little impact on the board's budget and is not considered as part of the operating costs of a new facility.

3. Ministry policies stipulating what renovation funds can be used for are very limiting. For example, one ministry official, while attending a public meeting of a board, was quoted in the local media as saying, "When asked about funding to upgrade the schools, the official said there are very few funds available for renovation and those funds that are available could only be used for renovations to the fabric of the building, ie, roof repairs, boiler repairs. There would be no money for the addition of a gymnasium, a library or a kindergarten."

At a conference in Ottawa held to discuss the problem of renovation funding, board trustees spoke of schools within their jurisdictions that were built prior to the implementation of kindergarten programs, prior to gymnasiums and libraries becoming integral parts of the school building.

Others spoke of schools built in the boom years of the 1960s which will soon be eligible for renovation grants. They described the structural problems in these newer old schools, arising in many cases from the use of construction materials or techniques that have since fallen into disrepute.

So what decisions are boards reaching when faced with such problems?

1. A board in central Ontario when faced with a school requiring approximately \$800,000 in upgrades voted to close the school and request funds from the province for a new facility. The cost of the new school is estimated at \$1 million. Construction has started.

2. A board in western Ontario, knowing the improbability of receiving renovation dollars, has voted to close down a high school and build a new one two blocks away because funding is available for new construction. The cost of a new high school is in excess of \$20 million.

3. A board in central Ontario voted to close four schools and replace them with two consolidated schools. Estimates by the board set the cost of renovating four schools and replacing one at \$1.3 million and the cost of building the two new facilities at \$4.5 million. The rationale for the decision was that the board could get funding for the new schools, but could not get funding for renovation and upgrading of the existing facilities.

Recommendation 19 of the select committee on education states, "The ministry should reinstate designated allocations for renovations within the capital funding model."

We believe that if renovation funding became more available to boards, it would result in a reduction in capital demands for new school buildings and allow us to get more for our money.

With a change in renovation funding practices, boards would make decisions based on need and financial accountability, instead of on the false economy that now exists.

**Mr Bennett:** Trustee Carolyn Parrish of the Peel board will address the issue of financing growth related capital needs.

**Mrs Parrish:** Just before I begin, I would like to point out that we represent a wide variety of boards in this coalition. Much of what was said about audits and reviews at the beginning by Mr Crothers in fact is being practised in Peel. We have a trustee audit review committee. It has to have co-operation from the administration and in fact it works very well. So what he is asking for works in Peel. It is well under way right now and as a matter of fact Peel is one of the boards that is being audited this year. It was welcomed by both administration and trustees.

The reason I was asked to speak on financing growth related capital needs was I was chairman of our board for two years and as chairman of that board worked very hard on a growth boards coalition when the green paper on levies to finance new construction came out and made several delegations here. So I am the pseudo expert on growth related capital needs.

What you have on page 11—there is no point in going into all the details; I am sure you can read it—is over \$1 billion in construction projections from the eight growth boards, half separate, half public, in the four growth areas. These are five-year projections based on 1989 statistics and do not have anything that is really up to date.

The growth boards consumed over 90% of last year's \$300-million allocation, and as Dianne has pointed out there was very little money left for renovations. So throughout the four giant areas, those eight boards, tend to consume millions of dollars every year.



The \$300 million that was put aside by the government last year did not begin to meet our needs.

As you can see when you read through here, we have 100 students in 2,500 portables. The lot levy legislation was passed last year, but so far has not been implemented, does not even address those backlogs. All it talks about is new capital needs, which is what we described on page 11 as \$2 billion worth.

I am here to help you. Do you not love it when they come to help you?

Interjection.

**Mrs Parrish:** No, I am not with the government, but I would like you to help us.

One of the difficulties we have is that the levy legislation is sitting there and it seems to have been mothballed. We would like to help you free up money for renovations and other things that you want to put money into in education. One way of doing that is to help us implement lot levies and that is only a beginning.

After lot levies there are many creative ways of funding schools. Developers have spent years making money in this province and I am sure they are here to help us as well. There are many creative ways of funding capital expenses, like large \$20-million secondary schools. They are listed here on page 13 as a starter.

Allow school boards to buy and sell land and build on it, thereby developing a capital pool and providing more flexibility and greater cost saving over time. With the levy legislation, we have received permission within the last six months to start buying property ahead of when we need it. That is a major step forward, because the price of land is dropping right now so that we could be in good shape if we are now allowed to continue doing that.

Expand the possibilities for boards to receive land or allow school construction from developers in lieu of levies.

Permit boards to lease commercial space for education purposes with appropriate grants. There would be no difficulty for most large boards in setting up onsite strip plaza parking lots, renting space, if we could get grants for it, which cannot.

Encourage the building industry to pursue leaseback proposals and reassess the types of grants given to boards for this purpose.

Consider designating school sites in the same way parkland is designated now, at no cost to local taxpayers. School grounds are no less significant than parks are to the well-being of a community.

The Roman Catholic separate school boards and the public school boards have had little reason to co-operate since the introduction of Bill 30. Competition for funds and facilities has been a significant barrier to this co-operation. We remain strongly unified in pursuit of an innovative funding proposal that will equitably distribute much-needed funds for the ultimate benefit of all students in all communities.

The NDP government made very strong commitments in education in the last provincial election.

The NDP government has an opportunity to support and encourage an innovative and forward-looking alternative

to the funding of new pupil places. Education development charges are radically different from previous methods which serve to increase debt while falling well short of what is absolutely essential to the health of the education system of this province.

I remember sitting here in front of the Liberal government about a year ago and congratulating it on doing something really innovative and I really hope that legislation is implemented and I really hope that this government continues it because it will be beneficial to all of us.

As a little footnote, I have attached some statistics, if you will forgive me, particularly for the Peel board, because if you are considering where you are putting your money in the next year, one of the things that I have heard a lot about and all of us have heard a lot about is putting maximum class sizes on junior kindergarten and kindergarten. This is a capital funding problem.

As you can see on the last page, it will cost the Peel Board of Education \$55 million in one fell swoop if you put those maximum class sizes on JK and K, so I would just caution everyone, unless you have a lot of money to hand out with it. The local taxpayers in the growth board areas will be hit very hard if maximum class sizes are put on those two grades.

**Mr Bennett:** I would like to close by simply saying that what the Ontario School Board Reform Network exists for is to provide opportunities for reform-minded trustees like ourselves to come before committees like this to urge changes and reforms which we hope will improve our system of local education governance, and in your particular case to enhance and to strengthen financial accountability, which we believe should continue to reside with trustees. We are the stewards and are responsible for managing those resources, but we need your help. Some of the things that we have advocated today we hope will open up some new possibilities for co-operation with the people here at Queen's Park.

We look forward to a few of your questions.

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**Mr Fletcher:** I am addressing this question to Mr Crothers who was speaking before. When it comes to your budget presentation and the wish list or whatever else is going on in the number of meetings you have, the final decision does rest with trustees when they vote on the budget, does it not?

**Mr Crothers:** In the school boards themselves, yes, it does.

**Mr Fletcher:** And you want more autonomy, you want more power over that budget?

**Mr Crothers:** The reference is in two things: One is an audit process, which in fact measures, relates the expenditures during the course of the year to the actual budget processes. Collectively, trustees have the authority to request that, but it has to be done collectively. If the majority of the trustees on school boards do not request it, then it does not happen. I think it should be required. I think that is the essence of the presentation.

The other difficulty, which is in the second part of what I was talking about, has to do with the school year. With so



many of the decisions regarding policies or programs to be implemented, you really do not get an initial immediate reflection of the costs on the budget because your school board budgets are done on a calendar year, but your school year is on a September to June school year. You do not get the full impact in any one single budget. It is spread over two budgets. So you do not really get the impact of the cost of some of these programs.

**Mr Fletcher:** One more: Is this action being taken because school boards are not fiscally responsible? Is that what you are saying?

**Mr Crothers:** I am not saying that. What I am saying is that I do not think the trustees in many of the boards really understand and have all the information that is required in order to make a reasonable educated decision regarding the budget. That is different than suggesting that the budgets are not responsible, because the administration does produce budgets which, for the very most part, are pretty responsible documents. What I am saying is that the trustees who are responsible for that do not have the wherewithal in the current situation to really make informed—they are acting on trust, and that may not be the best situation.

**Mr Bennett:** Could I add a little bit to this, because I think you pointed out a bit of a dichotomy on what we presented, and that is how the role and the authority of trustees can be enhanced by the further activities and extension of the Office of the Provincial Auditor, which is a good question because on the surface it appears that it might restrict local authority.

Our position, and our view of this, is that by conducting these audits it turns up enough evidence, enough material and enough background evidence of the way the boards operate to give the trustees information and evidence and, if you want, a bit of ammunition to come forward and try to enhance accountability at the school board level. What we know is that when the audits are announced in the school boards that have been done, right away there is a flurry of activity and it in fact has a beneficial effect on the school board systems.

We have heard the case of Peel where it has provoked a serious look at its budget process, where it provokes a more careful accounting of what is going on. It also serves to educate the trustees who, after all, are ordinary lay representatives, and many of them do not have the financial expertise that is required to properly scrutinize board expenditures. Indeed the whole financial control system is not in place in many of the school boards anyway.

**Mr Phillips:** I found it a very interesting presentation, and it is much broader than just the just the finance. It is almost like part of this should be at another committee somewhere, I guess; social policy or something.

Just to respond to your various recommendations on the fiscal year, I think there is some merit in that argument, the point I made earlier in saying I think right now six-tenths of your budget is gone, right now, until the end of June, and then you have four months in the fall. So you do face an unusual circumstance. The problem, I gather, is going to be marrying the tax levy with the municipalities

and that sort of stuff. I think from experience that is a challenge you have and maybe there is some merit in that recommendation.

**Mr Crothers:** From what I understand, in Canada Ontario is the only province now that does not have school budgets based upon the school calendar year as opposed to the—

**Mr Phillips:** Yes. If you get a surprise in the general legislative grants now, you are dead. You might get a surprise; I do not know.

The audit committee one is a balancing act, I think, between the government. I cannot speak for it, but it is, where do you help the school boards and where do you intrude on the local autonomy? You are suggesting that the government should instruct all boards to have audit committees. Maybe that is right, although Carolyn's board has already set its own up.

I always found it difficult when I was a school trustee. I said: "Province, keep your nose out of our business. If you want an audit committee we'll set one up," that sort of thing. I think that will be just a challenge for the government, but maybe an audit committee is sufficiently central that it should look at it.

**Mr Crothers:** Part of what I was suggesting, and I suggested this as perhaps a valued reform—I backed away from that and said that if you instituted regular provincial audits, I think most of the boards would do that on their own without being required to do it.

**Mr Phillips:** Just on the last three points you made, your suggestion on the capital program I think is a serious one. Are there examples where we end up encouraging boards almost to build the school rather than doing something more creative? Maybe there is something. I know in the health area that rather than looking at building more beds, those same funds have been used for community-based facilities sorts of things.

Again, we will have little impact on that, frankly, it will be the government that does that. But I think there is some merit in giving school boards the option where they can see that they could justify and get a capital project, a new building, done. A better alternative is renovation of giving them the chance to make that point. I think there is some good merit in that.

The lot levy, I tried to get an answer for you with an earlier presentation and did not, so I guess you will hear the due course, as they say. On the creative capital one, I think probably the government will be looking at that, not only in education but other areas. I think the Treasurer has given some indication of more creative capital.

The challenge in all of that, in my opinion, is to make sure that we do not just further indebt ourselves, if you will, because it is very tempting to say to someone, "You build us a school and we'll lease it," and all you are doing really is just paying someone else for the debt. It is a very seductive sort of thing. I think you will see that even with hospitals and stuff like that. I know in Alberta they are building private sector hospitals and leasing them.

I think if the government goes in that direction, and again it will make its own decision, it will have to



ful that it does not put itself just into debt in a non-creative way; again, I think with probably some creative thinking.

**Mrs Parrish:** One of the things Peel has done as a goal is to decide leasing is something to pursue, as long as it is lease-to-purchase. I think if you are in a position where 20 years from now the developer still owns the school or the property or whatever it is, then you are doing exactly what you said; plus, in 20 years try to close that school because you do not want to pay exorbitant fees to it or whatever. Any lease proposals we are looking at in Toronto home builders are intricately involved with lease-to-purchase.

**Mr Phillips:** I do not know how much help our committee can be to this group because of the subcommittee's recommendations. They touch on the pre-budget, but they are almost an operation of schools.

**Mrs Parrish:** I would suggest that if you can encourage a lot of levies to go through, you are going to help your committee getting considerably.

**Mr Phillips:** I tried my best.

**Mrs Sullivan:** Mr Phillips has asked a lot of the questions and made many of the comments I would have made. Coming from a growth area as I do, I think many of the things you have raised are particularly significant in terms of capital, and I am very supportive of some of the recommendations you have made relating to creative methods of financing that could be introduced.

I am looking at a comment that you have on page 12, suggesting that most boards are carrying increasingly burdensome debt loads from debenturing new construction. I recall, and you may remember these figures better than I, the school board debenturing costs are certainly well below their portion of the OMB maximums allowed for borrowing. In fact, the recommendations most recently have been that school boards are not debenturing enough. Under how you have reached that conclusion. Is it around 10%?

**Mrs Parrish:** I think it is even higher than that. I think boards are allowed to debenture up to 10% or 12%.

**Mrs Sullivan:** I mean the existing levels. There is still a lot of room.

**Mrs Parrish:** Some boards do not debenture at all.

**Mrs Sullivan:** Right.

**Mrs Parrish:** The Peel board, for example, was given permission to build five schools over the next three years, so we need them desperately so we have interim-financed a couple of them until the grants come in.

Another example of where we have to debenture is that we had to buy 120 portables last year. By the time they are installed, wired and fireproofed, they are \$65,000 a portable and because we are a growth area we do not get any money for portables at all. A portable is going to have a useful life of 20 years, so we debenture those on a 10-year debenture. But I know the Peel board carries a much lower debt load than whatever its limit would be.

We do not debenture frivolously. For example, we would not debenture a renovation now, we just postpone it. So what we are debenturing in the Peel board is absolute necessity and what we are debenturing on short term in some cases is just to get those elementary schools up and running, because we have schools with 13 and 14 portables on them. The problem with that with a junior school is that you have a lot of kids using the same washrooms, the same library facilities, the same lunch facilities and it is really a heck of a strain on the whole facility. And then you have all the busing costs for holding schools. So we debenture only what is absolutely necessary. We do not do it frivolously.

But I know some boards do not have any debentures at all. I know Durham does not. And that has just been their policy for years, and I know the government says: "Okay, we carry debt; let's transfer some of it down to you guys." Peel is doing its share. We are debenturing what has to be done.

**Mrs Austin:** Can I add something to that? At the board I am with, we are building several schools because we have a lot of growth. But when we went to debenture for our capital funding, we had quite a bit of trouble getting a debenture because the county and the town had gone way up to their limit and we were told that because we wanted to debenture, to share that with all the same taxpayers, it would be very difficult for our community. We are faced with several other new school constructions and we probably are going to have difficulty even getting debentures.

**Mrs Sullivan:** Are you talking about debentures for interim funding of schools that have been approved or sort of leaping the list, if you like?

**Mrs Austin:** No. These are schools we have received approval to build, so we get about 50% of the amount the school costs, and the additional 50% we are debenturing. We ran into difficulty when we went to debenture because of the situation we are in in our community with the county and the town.

**Mrs Sullivan:** Just as an aside, and there is not a question involved here, I do not think, but I was interested in your suggestion that some boards are in fact moving into new capital expenditures rather than renovation. I can tell you that is sure not happening in our area. We are taking whatever we can get and doing with it what we can get, but I thought that was an interesting comment.

**Mrs Parrish:** Could I also add, in Peel we renovated a large secondary school and we are only two thirds of the way through—it has been a three-year plan—and we have exposed asbestos, we have had problems like you would not believe. It ended up that by the time we are finished it is going to be \$18 million to renovate; it would have been \$21 million to build a brand-new facility. So I do not agree that it is cheaper. I think what Dianne was talking about was small renovations in a fairly solid building. When we get to the position where we get absolutely no money for renovations in Peel because we are sucking up so much for our new capital expending on population, then it costs us a



fortune to do that. And we have to do that all on the local taxpayers' hook.

**Mr Bennett:** It is an interesting thing. The demand for renovation and repair funding comes from the urban school boards like Metropolitan Toronto and some of the older areas that would like to see more money put into renovation and repairs, and from some of the rural and small-town school boards such as Victoria county where they have buildings that are a part of what is called the consolidation movement. People like Dianne Austin and others are trying to ensure that these small schools are not closed unless there is a good reason to close them. So you have a rather interesting combination of forces at work there urging more money being put into renovation and repair.

**Mrs Sullivan:** You did not talk at all about transferring assets between boards, between separate boards and public boards, depending on changing demographics. Is that something your committee has looked at?

**Mr Bennett:** One of the things you have to keep in mind is, with our network we try to stay with our mandate. Our mandate is to promote reform and our mandate is to bring forward things that strengthen public accountability and financial accountability. Our view so far has been that that lies outside our mandate, and we certainly have different views within us on some of those questions, so we try to focus on those particular things that are within our mandate.

**Mrs Parrish:** And speaking very practically from a growth board area, the Dufferin-Peel Roman Catholic Separate School Board's needs are every bit as desperate as ours, if not more so. So there would be absolutely no question of transferring property between the two of us, because we are both sitting there with—we have 600 portables; they have about 550. So there is no need to transfer. What we just need is more space.

**Mrs Sullivan:** We were able to do it in Halton with one school in the downtown core of Oakville, and that worked and saved a lot of money in the long run.

**Mr Bennett:** I think the spirit that underlies our movement and the reform movement of trustees is that we are in a post-Bill 30 environment in education in Ontario, and we are looking forward, we are not looking back. We are trying to confront some of the issues that exist now and not fight old battles and return to things that were settled some time ago.

**The Chair:** I have two questions myself about the lot levies. I had a meeting with one of my school boards, and the board indicated to me that it was hesitant about moving in the direction of collecting the lot levies because of the impending lawsuits that the first one who starts to do the lot levies is going to meet. We were told last week by the Ontario Home Builders' Association that in fact the first person who uses those lot levies is going to court.

**Mrs Parrish:** If it is a constitutional challenge, I would hope that the government will foot the bills for the legal challenge because it will mean it is going to save you \$300 million a year. If it is an individual one, I find it highly doubtful that there will be individual lawsuits. I

think what is going to happen is that it will be a constitutional challenge against all boards.

As a growth boards coalition we were trying to get our bylaws prepared at exactly the same time and look at the same time so they will take on the strongest challenge rather than some little tiny board that rushes in. So I would really hope—and I probably should have thrown this out here—that when that constitutional challenge hits, whether it will, the government will take on that challenge.

**The Chair:** Maybe you can bring me up to date. The lot levy legislation has not been implemented yet. Is it about to be implemented? Where is it?

**Mrs Parrish:** It has been made law but the difficulty we are having is that we keep getting new sets of regulations coming out. "Okay, fill in all the blanks." We fill in all the blanks, we send them back and they go, "Oops, we just changed it again." And to me, in my humble opinion, it looks like stalling. It looks like, I think, the government is a little bit afraid of the challenge. They are a little bit hesitant because they are not as familiar with the legislation as the previous government was, and I just think that is one of those things that they are a little bit afraid; they are sticking their toe in the water but it is a little bit chilly. I would hope that somebody speeds it up because the challenge is inevitable, but I think the benefit to the province over the next three years is \$900 million. I would hope that is something that is worth fighting for.

**The Chair:** My other question has to do with the rapid expansion of schools, and I know what it is like to be in a school with 15 portables. When the population boom happened in the early 1950s, can you give me any indication of how they financed the rapid expansion of the education system in those years?

**Mr Bennett:** If you are looking at me, I am the historian.

**Mrs Parrish:** He is older than the rest of us.

**The Chair:** I was just sort of looking.

**Mr Bennett:** It is not that I am the oldest, it is that I study history, Ontario history as a matter of fact. I guess there was a different regime, the provincial support for education was much greater. I could go back and we can look at the percentage of support for education. Every school board got more in terms of provincial grants, and I think it was just the different setting.

I need not point out to you that education was always a number one priority of governments here at Queen's University throughout most of that period. The result of that was a higher percentage of the provincial budget went to education. So an awful lot more money was put into education and there was less of the burden transferred to the local taxpayers. That is what financed the growth of the system in the 1960s, and provincial support for education reached its peak—what year was it?

**Mrs Parrish:** Early 1970s.

**Mr Bennett:** Early 1970s, 1971 I think, in fact, that is where there, and it has been significantly falling off ever since then. That would be the answer to that particular question. Of course, we have an entirely different financial regime



an entirely different approach to financing education has evolved over the last 10 or 15 years.

So it would be nice to turn the clock back, but I think answers to our problems, frankly, lie in a combination of provincial legislative grants, increased and enhanced local grants, and some of these innovative schemes which will draw capital from other sources and bring it to bear on the problem. Some of those things are illustrated in brief. That is what I think is where we are going to find solutions to our problems.

**Mrs Parrish:** And if I could add something, back in the boom days they were building brick and mortar buildings and then in the Peel board in the early 1980s we sold down 13 schools and transferred them over to other cities and got money or whatever. What Peel designed eight years ago was what we call portapacs. We had core schools and they have movable wings on them, so the kids do not have to go outside; they can just sit down the hall. But these are demountables and Peel gets credit for designing those. Other boards are duplicating them all over the province, so we will never get in a position where we will be selling off schools.

As educators, builders and planners, we are being far more careful about that, because it is very traumatic to sell down a local community school. Now you can just count some of the excess classrooms and move them somewhere else, or whatever. So we are building far more fully now. Those boom days created a lot of problems. Schools went up on every corner and then were all sold off in the early 1980s. What we are doing now is building something that is far more practical.

**The Chair:** My last question has to do with this line on page 13. It says, "Schools are no less significant than parks are to the wellbeing of a community." Given that developers are responsible for giving somewhere in the neighbourhood of 5% of the land that they are developing to the town in terms of park land, in a quick answer, is that what you are advocating here, that they also be responsible to give land?

**Mrs Parrish:** The quickest answer I can give is yes.

**The Chair:** Thank you for your presentation. I understand the Ontario Women's Action Coalition cancelled. Is that correct? They are not here.

#### McMASTER STUDENTS' UNION INC

**The Chair:** Our next presentation is McMaster Students' Union. Today we have Brian Leblanc, who is a member, and Gary Collins, president of the Manufacturing—sorry, McMaster Students' Union. I should have gotten right because I went to McMaster.

**Mr Leblanc:** A long time ago?

**Mr Collins:** I would like to thank you for allowing us to make this presentation today. My name is Gary Collins. I am the president of the McMaster Students' Union and I will be making a presentation concerning university education here in Ontario.

A few introductory words about the McMaster Students' Union. We are a student organization that represents 11,000

full-time undergraduate members at McMaster. The students' union provides representation and we also provide services. The services that we offer range from a day care centre to a licensed establishment to a grocery store to a graphics department to a radio station. In the representation we provide, we try to make briefs to municipal, provincial and federal politicians and we try to represent the view of students. We have a 35-member assembly. Today we would like to outline some of our concerns with education in Ontario. Brian will speak on education.

**Mr Leblanc:** There are several things we want to touch on. It is too bad that Kimble Sutherland is not here. I met him when he was president of the students' council at the University of Western Ontario. I am sure he and I share almost identical views on this topic, so it would be nice to have some support from him. I am just going to run through sort of a preliminary overview and then some things we think need to be done.

We think government expenditures on education are an investment in our society. I think if we do not invest in our human capital, then we will be going nowhere as a province and as a country. Ontario is the engine that drives Canada, essentially, and if we are not producing qualified graduates, then our country will be in dire straits.

I am sure that you are all aware that our universities are chronically underfunded. Student-faculty ratios are rising. The space shortages, delayed maintenance and decreased real expenditures on capital purchases and library expenditures and things like that are all over the system. Clearly we do not have the kind of system that I guess you all had when you went to university, if you did. I am sure you would recognize McMaster, if you came back now, as a very different place than when you went. I think if we do not give a tremendous amount of more money to the system, the myth of quality and accessibility will be exactly that, as there is no way we can sustain the system as it currently is.

I will give you an example of this kind of decline. In the political science department at McMaster, there is a tremendous lack of professors and there is a lack of continuity in education because of that. Honours students have to produce a thesis in fourth year for the faculty adviser who taught them the course. That is proving impossible because none of the professors who were there could give them courses. They are all on leave or they are all taking off or they have simply left the system or they have gone to the United States or they have just moved out. It is becoming impossible to finish an honours degree in the four years that it would normally take you.

Increased expenditures on faculty would eliminate that problem because there would simply be more faculty for the students. Enrolment at McMaster has gone from 8,300 students in 1979-80 to 10,700 in 1989-90, and at the same time, over those 10 years, the province is spending \$1,900 less per student. I think it is almost ridiculous to think that we are delivering the same kind of education to students today as we did then. I am not saying that 1979-80 or even 10 years was some kind of nirvana for the system because if you look back at the materials from that period, they were screaming that they were underfunded then.



If they were upset then, than clearly we should be quite upset now. The government has consistently said that it is committed to accessibility and quality. It has not backed that up, though, with money, essentially over the last 20 years. There are available resources to give to the university system that just have not been getting there. Over the last 10 years, increases to universities have gone up 5.7% in real terms and transfers to health care have gone up 113.8% in real terms. There is money there, obviously. It is just a matter of political will and desire in spending it in the system.

The current government pointed this out consistently when it was in opposition. They would scream up and down every time there was a funding announcement about universities. I think they have a golden opportunity to arrest the decay in the system right now in their first budget. It is time to put some action to the words that they had said for years.

It is NDP policy to to eliminate tuition fees because I believe as a party it shares our belief that the university system is a system whereby you create social change. It is not a system where you go and you purchase a commodity which is education, but a system where you use it as a tool to change our society and to make our society more equitable. You have a beautiful opportunity in your first budget to actually put that idea into practice.

Another thing I want to talk about is a problem, I believe, in the way the universities are funded by the government. Currently, if you are not all aware, it is a sort of convoluted corridor funding system formula with a series of other envelopes for special projects. I am not sure how you people feel because you have never made a funding announcement about universities, but they used this scheme to sort of distort the amount of money they were giving to the system. Last year, then-Treasurer Nixon said there was going to be an 8% increase for universities. In fact that was not true because it was not an 8% increase in operating. It was 8% in total outlay and most of that went to special programs. The actual increase in operating was about 2.2% to 3.5% per institution depending on the institution, and as we all know, inflation was somewhat more than that and enrolments have risen 25% in the last six years.

Clearly they are not getting the kind of money they should. What we think should happen is that they should move the envelope funding system down one more level and create a series of targeted envelopes for universities based on undergraduate education, graduate education, administration, libraries, physical plant, whatever.

You can compartmentalize it and target the funds going to the universities in the way you want them to or in the way they are meant to be spent by some formula, because 70% of the funding for McMaster University comes as a direct result of the undergraduate enrolment that is there, yet only 30% of that money goes to undergraduate teaching and undergraduate services. I think that is ridiculous. I think the undergraduates, if that is the way we are going to fund our system, should be benefiting from that money and I think the provincial government should exert some kind of control over the way that is going.

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We can restructure the way we fund it all we want, we also need money and the Council of Ontario Universities has said in its brief about fixing the system, which I touch on in a minute, that we need an extra \$410 million base operating this year to bring the system back to some kind of health. I share that view, except my figure that calculated was about \$506 million. That was based on year's Ontario Confederation of University Faculty Associations funding request which was ignored by the government. We are talking about a considerable amount of money—\$500 million is not peanuts—but in relation to the size of the provincial budget it is not actually that large.

Now to tuition: In 1987-88 Ontario universities got about 63% of their income from government grants, the rest of Canada got about 70%; that is, about 7% more. Tuition fees in Ontario were about 15% of operating expenditures. In the rest of Canada it was about 10%. I think at the very least, in terms of tuition, the government should freeze tuition fees where they are now until our average tuition fee contribution to operating funds comes to the national average, to about 10%.

I think that the COU recovery plan—I do not know if everyone is familiar with it, but it was calling for a \$500 dollar-per-student increase, and I think that is ridiculous because in its own brief it said the provincial government should obviously be the one paying this. They say that it will not, so let's hit the student. I think it is deplorable that these university administrators are having to call for tuition increases which they know will hurt students. They know it. They say, "Let's use some of the money for accessibility." I think it is ridiculous if they are forced into that position because of government intransigence on this issue. I think the government should pick up the cost, and they said so in their brief. I hope you people believe that when you are making the funding announcement.

In 1978-79, OSAP was allowing \$65 a week as an allowance to students. I do not know where they got that figure of \$65 a week, but I guess they assumed it was adequate then. In 1991, it is \$121 a week per person living. The cost of living index over that time increased 128% and living allowances only increased 86%. Students are being starved in terms of assistance when they go to school, so I think that issue also needs to be addressed.

There is a series of recommendations at the end. I will not run through them to save time, but I hope you people read this. If you have any questions, I would be happy to answer.

**Mrs Sullivan:** I have a question. I know that you did not read through your brief and I am caught by a sentence on page 15 as one of the questions that you are asking, "the university of the masses inherently low quality due to the presence of a greater number of average students?" I was interested today in a conversation we had with the Ministry of Colleges and Universities officials who were discussing some of the needs of the university system in the college system over a period of time. One of the predictions that came forward was that there would be perhaps an increase in post-secondary enrolment in colleges and universities. I am wondering why you are asking this question.



suggesting a limit in admissions based on academic and with attendant changes and funding pressures? Is this here?

**Mr Leblanc:** Actually, that question is sort of almost obvious question because when we had—

**Mrs Sullivan:** It does leap out of the page.

**Mr Leblanc:** Yes. The system people referred to as which was of good quality was in the 1950s, and as all know that system was essentially for rich white. In the 1960s we embarked on a process of accessibility it was government policy. Since the accessibility policy has been attempted to be implemented, it seems quality has gone one down because the funding levels have decreased since then. So it is sort of a facetious question. Will we only fund an elite system properly? That is essentially the point I was making.

**Mr White:** Perhaps in deference to the committee members, you should have said a majority of white males and a few very exceptional women.

**Mr Leblanc:** True. Actually I think that is horrible, because I do not think you have got to be exceptional if you are a woman to go to a university.

**Mrs Sullivan:** That is not the case these days.

**Mr Leblanc:** No. It is not the case. There are more women than men in the system.

**Mrs Sullivan:** Except at the graduate level.

**Mr Leblanc:** Except at the graduate level, yes.

**Mr Hansen:** I would like to say we know your concerns. I have two of my children, one in college, one in university, so I have related back to me exactly what is going on there on certain levels. Not only that, Kimble, our new member of the government, gives us quite a few examples back there in London. We do hear your concerns and we are going to have to address them as best we can. Your concerns are being listened to, and the other universities and colleges also. It seems to be about the same voice across the board. It is no different whether you are at McMaster or you are at London.

**Mr Leblanc:** It is true. It manifests itself in different ways on different campuses, but the situation is truly horrible. Mr Wiseman, if you went to McMaster, when you were there were about 15 students for every faculty member. Now there are about 20, and that is ridiculous.

**Mr Hansen:** I am a little bit older than even Jim Wiseman. I had my education in the United States because that was the closest available college and university to go to.

**The Chair:** I have a question. It stems from the brief we received from the Western student union. They requested that a policy for funding and moving towards a tuition could be funded out of tax increases for students who have graduated from university and therefore are in a better position to fund it because they are in the higher income-earning jobs in the economy. Do you care to comment on that?

**Mr Leblanc:** It is fascinating that Western would ask that. I guess you are talking about an income-con-

tingent repayment plan similar to what they have in several other countries. Well, first off, I would say that we have a truly progressive and proper income tax system. Talk like that would be ridiculous because, if you are making more money, you would be paying proportionately more taxes. Something like that would be ridiculous because it would already be happening without any special programs.

If you are going to tell me that you are going to institute a truly progressive tax system and eliminate tuition fees, I think that is wonderful. I think that should happen anyway. If you are talking about an income-contingent repayment plan, what you are talking about is students paying about 10 times as much in tuition as they are now because the interest on the loan, because it will still be sort of a loan. They will keep a running tally and—there are some figures in the recent OFS report—if you borrow \$14,000, you will end up paying another \$16,000 extra that you did not borrow. I think that is ridiculous.

**The Chair:** That depends on how long it has been amortizing and on what your rates are.

**Mr Leblanc:** I believe they were doing it over 10 years. I think an income-contingent plan is ridiculous. I think what we should do is redress the province's tax system and do it through that avenue. If we did have a progressive tax system, then we would not need tuition fees because if I benefit from the university system, I will be making more money obviously, and if I am making more money, I will be paying more taxes and I will be paying progressively more taxes.

**Mrs Sullivan:** That is a very questionable point of view. There are many people without a university education who are in fact earning very large amounts of money and making their contribution to the tax system now. Frankly, I get upset, and I did with the Western students who were here, with the assumption that post-secondary education automatically will now and in the future keep you in the maximum income levels of society. Surely to goodness, if that is the case, then we are doing something awfully wrong with other levels of training.

**Mr Leblanc:** I think I would agree with that, although statistically the highest income earners are all holders of university degrees. That is not something that I mean; that is just a fact of our society. I agree.

Then let's use the education system and the university system in particular to effect some kind of equality across the board in this province. It is a tool for social change; it takes people and it gives them opportunities that they otherwise would not have. I do think that, sure, people who do not have university educations earn lots of money and they are in high income brackets, but I also think that education is just in general a social good.

You are not just learning how to do something, how to be an engineer, how to be a political scientist or how to be a lawyer. University experience teaches you much more than that. It is not simply classrooms. It is creating good citizens. University education creates good citizens, and I think there is a general benefit for the society in creating good citizens.

**Mr Phillips:** Just in fairness to the previous students, I heard what they said differently personally. I thought what they said was, "Reduce tuition fees until they are zero and you will get it anyway from us because we will earn more." I did not hear them say a specific tax.

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**Mr Leblanc:** Actually, that is very true.

**Mr Phillips:** In case you bump into them and get into a fight with them.

**Mr Leblanc:** I have heard that same thing. Actually in increased taxation due to augmentations in income, you pay off the subsidy the government gave you for your tuition. They are usually talking about eight years.

**Mr Phillips:** That is what I thought they said. You would have to look at Hansard just to find out what they really said. That is how I interpreted it.

**Mr Leblanc:** But you pay off your subsidy in about eight years now apparently.

**Mr Phillips:** I believe that the direction the last government took was to increase the grants to the universities and colleges at the same rate as the increase in tuition. That I think was to try to get more money into the system. I know this is a difficult question for you, but you have two recommendations here. One is to increase the rate, to get the \$410 million incremental money in here and the other is to have tuition fees decreasing as a percentage of—

**Mr Leblanc:** Sure, in other words, freeze tuition fees.

**Mr Phillips:** I am just trying to get an idea if you can give us any hint on your priorities. Is it more important to the system to reduce tuition fees or to increase the funds in the system?

**Mr Leblanc:** That is an interesting question.

**Mr Phillips:** Normally it does not get an answer, by the way.

**Mr Leblanc:** Let me talk about the previous government. Sure, they increased tuition and grants by the same number, and if they had increased tuition in operating grants by the same number, then that would have been fine. But as I said, tuition went up 8% and real operating went up about 2.5%, so that is not really the case. I am not really sure but I think if we freeze tuition fees, you would not have to touch them. If you just gave the extra \$410 million, that would redress the problem right now and tuition fees would drop to about 10% of the take.

**Mr Phillips:** Is that right? I thought that the system said it needs \$410 million more in it.

**Mr Leblanc:** Yes, for next year. So if the government gives all of that money, the tuition as a percentage of the new figure will be about 10%.

**Mr Phillips:** Just in case that does not happen, which I doubt, but just to provide a contingency plan, have you any direction for the—

**Mr Leblanc:** I would say give us more money in operating and, if you want increased tuition by CPI, if that is what you are asking me—

**Mr Phillips:** That is what—

**Mr Leblanc:** I am saying tuition levels are too right now and I just fear they are just going to get higher. But if you are asking me to choose between \$410 million for the system or an extra \$50 on tuition, I will take \$410 million.

**Mr White:** I just want to add to a couple of things. One brief comment along the lines that Mrs Sullivan suggested, and I think you replied excellently, that the purpose of a university education is not simply an input toward the desired output of increased income, but rather a broader view of human perspective and an increase in general benefit to our community as a whole. Certainly, that has been the discussion we have heard through decades at the university in erudite and sometimes useless conversations.

**Mr Leblanc:** Never useless.

**Mr White:** No, no, they are part of the broader experience, are they not? But I am curious in terms of the tuition issue. There is a need of course, if there is any increase of tuition increase even comparable to the increase in operating expenses, etc, for that increase to be equitable, to be done in a way which does not deprive those who have a limited income of the opportunity of gaining access to the college and university system. Do you have any suggestions as to how that might occur, if there needed indeed to be any increase?

**Mr Leblanc:** How to maintain accessibility in the face of tuition increases?

**Mr Phillips:** Yes.

**Mr Leblanc:** It is a very difficult question, because tuition is a very small percentage of the outlay of cash in university education. What it is is a number that people say, "Oh, I can't pay that." It discourages people. They say, for every \$100 increase in tuition you lose 1% in enrollment, in demand. So it is not the tuition itself that is the impediment; it is the notion that it is so high. It is a psychological barrier, not necessarily a financial barrier, though it is a financial barrier as well. It is a psychological barrier because they see living costs and everything.

If we move to an all-grants OSAP system, we would in effect be cheaper than the current system because of the interest costs the government pays—this program of OSAP, was invented in the 1970s when interest costs were really low and the real cost of carrying a loan was about 0.5% to 1%, so it was really cheap. Now the interest rates are so high that the government carries them for four years and it ends up costing almost as much in total interest as the loan would cost if you just gave the money away without carrying the interest for four or five years.

If you go to an all-grants program and fix the holes in the OSAP system—I mean, the method of assessment is ridiculous. I think it is demeaning for adults to have to send in their parents' T4 slips to get student assistance. I mean, my God, I am an adult. What does how much parents make have to do with whether I should be a recipient of a student loan? I think if you could fix that, that is an avenue.

But how to fix the psychological barrier that tuition is. I have no idea, I really have no idea, because I have talked to people who did not go to university and they said



the tuition fee and I couldn't go." I said, "You know, real costs are just to live or to live somewhere else or books or whatever." And they said, "Yes, but I just don't pay at tuition." And I said, "Well, that is something that I don't pay."

**Mr White:** And yet tuition is only a small part of the

**Mr Leblanc:** Tuition is a relatively small part of the cost, sure, but it is a large psychological barrier because they have to pay it all at once. If you asked people in a low-income family, "Give me \$1,800 now," they cannot see a way to do it.

**The Chair:** I would like to clarify the quote from their report. "The money should come from us, as students, and the money should come from us after graduation through a progressive income tax system." Then they went on to say, "Therefore we do feel that through the corporate tax system

there should be revenues raised towards post-secondary education also."

**Mr Leblanc:** Sure, because next to the graduates the greatest beneficiary of the post-secondary system is of course the corporate sector, because we give them ready-trained graduates that they can plug into whatever job they want. So perhaps progressive corporate taxes might be another good idea.

**The Chair:** On behalf of the committee, I would like to thank you for your presentation.

**Mr Leblanc:** Thank you.

**Mr Collins:** We will be lobbying the minister, who is our local representative, Dr Allen. We will be continuing to call him and meet with him.

The committee adjourned at 1658.

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Première session, 35<sup>e</sup> législature

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Consultations prébudgétaires

Chair: Jim Wiseman  
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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday 29 January 1991

The committee met at 1004 in committee room 2.

### PRE-BUDGET CONSULTATIONS

#### ONTARIO CONFEDERATION OF UNIVERSITY FACULTY ASSOCIATIONS

**The Vice-Chair:** Welcome to the committee on finance and economic affairs. With us today is the Ontario Confederation of University Faculty Associations. I believe Mr Graham, the president, will be presenting. Would you identify yourself and your colleague.

**Mr Graham:** Good morning, Mr Hansen and members of the committee. I am Bill Graham, professor of philosophy at the University of Toronto and president of the Ontario Confederation of University Faculty Associations. To my left is Marion Perrin, who is the executive director of OCUFA, and in the audience today are Heather Oster and Glen Brown from our staff.

We want to thank the standing committee on finance and economic affairs for the opportunity to be part of the deliberations. We have appeared before this committee in the past and in the past it has been our practice to address short-term funding requirements. This year, we would like to adopt a somewhat different approach and tie the short-term requirements into some long-term issues.

If I could start just by making a quote from Walter Light, who is a former CEO of Northern Telecom. Speaking before the Conference Board of Canada, Walter Light

In the 1990s, we've got to put our money where our mouth is in terms of addressing the quality of education from elementary school up. I think it is going to take very bold, very aggressive, very innovative management. That, in other words, is our newest form of capital. And that does it mean to treat talent as capital? To me it means treating people."

He went on in this speech to say that the majority of new job entrants in the 1990s are going to be women and members of minority groups.

OCUFA shares with the present government the profound commitment to the achievement of equity in Ontario. The realization of this goal will necessitate fundamental social changes. We believe that the universities of the province have a distinct role to play in achieving a just and equitable society; but if they are going to fulfil their mandate, they too will have to embrace change, becoming more diverse institutions where those who have traditionally had low rates of participation in higher education are welcomed and encouraged.

The face of Ontario is rapidly changing. We are becoming one of the most racially and ethnically diverse societies on earth. Over the next two decades, members of minority groups will increasingly seek access to our institutions as means of achieving equal opportunity. Women,

visible minorities, aboriginal people, the disabled and the poor face a barrage of systemic discrimination. Employment equity legislation, even with mandatory goals and timetables, will do no good if educational equity, that is, making it possible for people from these groups to attend post-secondary institutions, is denied.

Universities remain largely homogeneous cultures in a society which is rapidly becoming more and more heterogeneous. We believe that this situation cannot be allowed to continue, that universities must change in keeping with the changing nature of our society, in order to forestall all kinds of economic and social problems which one can see looming on the horizon in the country just south of our border.

What we would like today to share with you is a comprehensive approach to changing and reforming the province's universities. The importance of education in the future society can hardly be denied. Both socially and economically, it is important to have an educated populace. When we are beginning to be a knowledge-based society, more and more people in our society will require post-secondary education. In fact, it is now estimated that at some time in their lives most people in our province will require some form of post-secondary education. It is on the basis of this that we make our appeal to you and our response to your request to appear here today.

Among the particular problems that we see facing the province with regard to post-secondary education is the upcoming faculty shortage which we spoke to you about last year. By the year 2000, one quarter of the existing faculty members in Ontario universities will be retiring. By the year 2006, another one quarter will have retired. That means that within 15 years we will have to replace one half of the existing faculty in Ontario's universities. That is a considerable problem because we do not have any plans in place at present to make that kind of substitution.

There are not enough people in the pipeline, so to speak, to take those positions. We are not graduating enough PhDs to take those positions and we know that other sectors in the world, such as the United States, are aggressively pursuing the hiring of our best graduates because they also face the same sort of problem in regard to retirement of faculty.

You might have seen the Toronto Star this morning in which John Dirks, the dean of the faculty of medicine at the University of Toronto, wrote a letter in which he refers to an article called "A Basic Sexual Mystery Is Solved," which was reported on 6 January in the Star and describes an amazing breakthrough about the differences in males and females. This scientific breakthrough was made by Dr Huntington Willard of Stanford University.



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What the article did not point out and what John Dirks wants to correct is the fact that Dr Willard was formerly a member of the department of medical genetics at the University of Toronto and moved just recently to Stanford. He moved there because of the lack of commitment by the federal government to basic medical science and because the provincial support for university research was being eroded.

In other words, we are losing some of our best and finest talent already to the United States and, when the situation begins to deteriorate even further towards the end of this decade, we will be losing even more. You may have seen also in the newspapers recently reports of other high-quality faculty members who have been lost to the United States, people I personally know. Tim Colton, for example, was pulled away by Harvard University, and Allison Gopnick to Berkeley. These are high-quality faculty people whom we cannot afford to continue to lose.

If faculty shortages are allowed to occur, as we predicted they will, there may be no choice but for universities to cut back on enrolment, and the worst-case scenario is that one or more universities might be forced to close. This is a rather absurd situation because we know that the enrolment has been growing steadily in Ontario universities. Over the last 10 years undergraduate enrolment has grown by about 25%.

At the same time that universities are facing this upcoming shortage of faculty members, because of budget pressures many universities, including the University of Toronto, McMaster University and Western, are actually cutting back on faculty, and that is the absurd paradox. We are facing a situation where we need to build faculty, and instead we are having to cut back on faculty positions. So the situation is not only severe but it is being worsened by the financial situation that our universities are in.

It is imperative, therefore, that the government act quickly and decisively to meet the impending faculty shortage crisis. OCUFA has called in the past and calls again upon the government to implement a faculty growth program, including the provision of targeted funds to increase the number of tenure-stream positions at Ontario universities.

Such funding, in addition, would provide an excellent opportunity for the universities to implement employment equity programs. OCUFA is a strong proponent of employment equity and favours the introduction of legislation which includes mandatory goals and timetables.

OCUFA believes that our universities must become more welcoming institutions where special efforts are made to ensure not only access but also retention of members of the designated at-risk groups. Such efforts should include the initiation of educational equity programs and the broadening of the curriculum.

We were at a conference recently in the United States where the situation is even worse in regard to equity than it is in Canada and we were told at an interesting panel discussion that the existing curriculum should be described as white, male, European ethnic studies, as a kind of response to the describing of certain other programs as native stud-

ies or women's studies or other kinds of ethnic studies. There is no question that the curriculum in our universities will have to change to accommodate the growing diversity of our population. We also need to provide better support services and better physical arrangements for the people of different cultures and ethnic backgrounds.

OCUFA firmly believes that students should not be forced to pay for the recovery of universities through the imposition of higher tuition fees. Tuition fees are the single most significant barrier to disadvantaged groups in our society. In the United States, tuition increases and cuts in student aid have resulted in a dramatic decline in post-secondary participation rates of minority students.

OCUFA recommends that tuition fees be frozen and that the government signal its intention to eventually eliminate these altogether. We appreciate that the removal of fees cannot be accomplished in a short time frame, certainly not in the present economic climate. It depends on improvements in taxation and federal transfer payments. However, only when this goal is realized, it must be clear that equal opportunity in higher education be truly available for all of Ontario's citizens.

Support for higher education is especially needed in times of recession, so that those who are unemployed can improve their education, training and skills. University enrolment in Canada rose 4.1% this year, including large percentages of both the 18- to 24-year-olds and people over 30, but the disadvantaged are still being shut out. The fact is that a bachelor degree is now, for many employed people, what a high school diploma was 15 years ago. So with the onset of a knowledge-based economy, most people will need some form of post-secondary education at some time in their lives. If the barriers to post-secondary education for disadvantaged people are not removed, these people will not be able to compete equally for many jobs and careers which are open only to those with higher education.

The removal of tuition fees would bring Ontario into compliance with the United Nations International Covenant on Economic, Social and Cultural Rights, which Canada acceded to by 1976 after consultation with the provinces. This covenant commits Canada and Ontario to making post-secondary education equally accessible to all on the basis of capacity by every appropriate means and in particular by the progressive introduction of free education. It is also in line with the speech from the throne which talked about making available publicly funded post-secondary education. "Strong publicly funded institutions are crucial to lifelong education," is an excerpt from the speech from the throne, 20 November.

Freezing of tuition fees must also be accompanied by the reform of student assistance programs, including, for example, increasing the current living allowance and proving eligibility requirements. In the longer term, student assistance should be restructured with an emphasis on grants rather than on loans. Students are currently graduating from four-year programs with debt loads in excess of \$20,000, and this is a tremendous disincentive, especially to economically disadvantaged students.



OCUFA does not favour the income-contingent student repayment plans which have been discussed as possible alternatives to the present method of repayment. While desirable in some ways, they still impose a user fee on education. Furthermore, they do nothing to remove the burden of debt from low- and middle-income students. Education should be publicly financed by revenues generated by fair taxation, both progressive personal income taxes and taxes on corporations.

OCUFA calls on the government to move forward with the creation of its Fair Tax Commission promised in the Speech from the Throne. We believe that the revenue generated by such innovations as a minimum corporate tax and a consumption tax promised in the last election would enhance the government's ability to deal fairly with public institutions such as school boards, municipalities, hospitals, colleges and universities.

OCUFA believes that the Ontario government must play an active role also in lobbying the federal government to restore and augment the established programs financing research to increase support for research through the federal funding agencies: the Medical Research Council of Canada, the Natural Science and Engineering Research Council of Canada and the Social Sciences and Humanities Research Council of Canada. We urge the government to challenge federal cutbacks in the courts if necessary and to participate in any consultations on education which are not open and broadly consultative.

Ontario now provides in real dollars some \$1,900 less per student than it did \$10 years ago and \$800 less per student than the average of the other nine provinces. In terms of per capita funding for universities, Ontario is ninth out of the 10 provinces. So we wrote, together with other organizations, to the Treasurer last November urging the government to bring Ontario universities to a two-year period to an average level of per student funding for the other nine provinces. This would cost \$125 million per-year over two years in current dollars.

Mr Chairman, I would be happy to discuss these proposals and to answer any questions your committee might have.

**Mrs Sullivan:** Dr Graham, I am interested in a couple of aspects of your report, one relating to the faculty growth fund. I know that you have been working to a certain extent with the Council of Ontario Universities in terms of developing a consensus on what the requirements are for the post-secondary sector. Their recommendation is that \$100 million would be required over four years. Have you incorporated the faculty growth fund into that or do you have an estimate of the need for a faculty growth fund, in addition to that \$100 million a year?

**Dr Graham:** That \$410 million of course was an estimate made principally by the Council of Ontario Universities of what it would take to achieve recovery in the immediate future. We are concerned with not only the immediate future, but the long term. Certainly the \$410 million would cover part of the recovery of faculty growth, but there would still be a necessity over the 15-year period,

longer than the four-year period, to look at the kinds of shortages we are facing and what it is going to take to replace them.

Unfortunately the longer we wait the more expensive it is going to get. The more competition we get involved with for hiring top-notch faculty members, the more competition we get involved in with other provinces and especially with other countries, the more expensive it will be. Unfortunately in many areas there is quite a market for faculty members and certainly in areas that are of very great interest to the government, such as science and technology. We have seen some of the effects of some of these people being drawn off by other universities already, so in answer to the question, yes, the \$410 million would do part of the job immediately, but there is a necessity to look at the long-term problem.

As you mentioned, we are working together with the Council of Ontario Universities to develop a study of the exact demand. We know what the overall parameters are, but what we are doing is looking at each separate discipline and seeing what the demand and supply situation is with regard to each discipline. The results of that study should be available some time in May.

**Mrs Sullivan:** I was also interested in your views relating to student tuition. Of course we have heard that argument from students in the past, and as well in student presentations before the committee this year. The COU has recommended special student fees to assist in the recovery process. I assume, because of your argumentation, that you disagree with the proposal.

**Dr Graham:** We do. I think we recognize the problem the COU has with regard to its assessment of funding. However, we do disagree. The position on student fees is a relatively new one for OCUFA. The fact of the matter is that we see the necessity to deal with student fees in a vigorous way as a result of the population in Ontario, the fact that we have a very large population of minority students, of women, many of whom are now single parents who require post-secondary education.

We have a growing demand, we think, by aboriginal peoples, a necessity to take the education of aboriginal peoples seriously. We need to deal with the handicapped members of our society, people for whom this kind of tuition fee increase would simply be impossible. We unfortunately feel that the Council of Ontario Universities' solution would purchase recovery at the expense of many of these disadvantaged groups and so our disagreement with them is profound on that particular issue, although we share a lot of their concerns about the nature of the situation in Ontario universities at the present time.

**Mrs Sullivan:** That leads us then directly into the question of student assistance programs. One of the things I have not seen in either the student presentations nor in yours is any particular emphasis on people who are returning to the educational institution who may have family obligations and so on, where there are certainly enormous pressures, which I am seeing in my constituency office, and I have not seen that emphasis and I am curious as to why.



**Dr Graham:** I am sorry if you have not. It is certainly one of our concerns that the people who are now making use of post-secondary education and who will need post-secondary education in the future are not simply the 18- to 24-year-old groups but people who are returning for what has been called lifelong education, for upgrading or for education in specific skills or specific disciplines to meet the new kinds of economic and social necessities.

We are becoming a knowledge-based society and people are going to have to have different kinds of skills, so they will have to return to universities. People with family obligations are going to find it increasingly difficult, especially single parents, and we know there is a growing number of them too, to face the kinds of economic pressures that people are faced with in the current financing situation of students for universities.

We are concerned, however, very greatly with people from other cultures and other ethnic backgrounds, with the poor in our society. It is very easy, from the inside of an institution, to forget that there are people outside. Believe me, it is very easy to look at the universities from the inside and to forget there are people outside who look at the universities and our post-secondary institutions in an entirely different way. We do not see the barriers from the inside. You have to get among those people and ask them and talk to them and you will find that they see something we do not see.

If you have ever been to New York City you may have seen, along some of the walls of New York City, and especially in front of garages and so forth in some of the streets, the sign, "Don't even think of parking here." I think a lot of people who are not now engaged and who do not have a family tradition of being engaged in post-secondary education look at our universities and post-secondary institutions and see a sign painted on them that says, "Don't even think of coming here."

That is largely for financial reasons, but there are also social reasons, cultural reasons, familial reasons, reasons of curriculum. There are reasons of the chilly climate they face when one or two hesitantly put their foot through the door. It is not a particularly welcoming situation for them and we want to see these problems addressed, and as a faculty association we want to play a role in addressing these problems.

**Mr Fletcher:** Dr Graham, I agree with a lot of the statements that appear in your document. I was just wondering about the number of professors who are going to the United States. Help me along here. I am just wondering about their funding. They receive a lot of corporate funding as opposed to the substantial public funding we receive. That appears to be one of the factors that their education system, especially post-secondary, is one that thrives. I know they can fill a football stadium with 80,000 people and a lot of that money does not just go to the athletic part of school. They are generating more money than what our universities generate. That is one of the factors, is it not?

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**Dr Graham:** That is certainly true. I am not so sure that we should look so—

**Mr Fletcher:** I am not saying that either.

**Dr Graham:** —adoringly at their football situation because that has created a lot of other problems that they may have read about, sports programs and what they are doing with minority students who are brought in under the aegis of becoming part of a sports program, and then if they are not first-quality people they are simply pushed out the door and suffer.

US funding for the public universities is, however, on average well over 35% higher than the public funding for Ontario universities. That is an average across the country. While it is true that corporations and private funding have been more generous and that there has been more tradition for that in the United States, there is also the fact that public funding for the institutions is better.

We favour, of course, public funding. That would include not only fairer personal income tax but also tax breaks for corporations. We believe that certainly our corporations and our businesses are some of the chief beneficiaries of the graduates of our post-secondary institutions and the knowledge that is generated in our post-secondary institutions in terms of research, as well as teaching. We think that based on progressive people such as Walter Light, that the corporations and industries would be quite happy to play a fair role in supporting the kind of graduates and knowledge that will be of help to them.

**Mr Fletcher:** Just one more question and comment. On page 10, "Funding for Recovery and Change," I agree with your statement that at the beginning and during the recession it is going to be hard to reverse the effects of chronic underfunding, but you are hoping that at least a minimum the government will provide sufficient funding to protect the universities against inflation and honour previous government commitments, such as funding for economic growth. Do you have a dollar figure as far as that is much that is? The "previous government commitments" were these previous government commitments from the previous government or previous government commitments from this government?

**Dr Graham:** I think the dollar figure we had written to the Treasurer about was \$125 million per year over the next five years. That would bring us up to an average position within Canada, bring us up to the middle position. We are now second to last, ninth out of 10 provinces in terms of funding post-secondary education on a per capita basis. That would bring us up to midpoint. We had hoped that this government could establish as a kind of motto for itself, "Midpoint by midterm of government," and move from there depending upon the economic situation of the province.

**Mr Fletcher:** As far as the commitments of previous governments, or previous government commitments are concerned, that is the previous government's, not what the New Democratic government is committed to.

**Dr Graham:** Yes. The accessibility funding, for example: There was some money dumped into targ



ling for faculty renewal. That established 500 positions in five years. The problem with that was that it was only a partial replacement. Even after that situation we are facing the shortages.

We are looking at a major problem in terms of addressing the future complement of the faculty in Ontario. There are 13,000 faculty members. Half of them are going to be replaced in 15 years. We are pleading for some kind of program to address that, some kind of strategy to address that. We would be happy to play a role in that strategy. It is one of the things we are going to take a partnership of students, faculty, administrators and government to try to solve that issue. We would be happy to have you.

**Mrs Cunningham:** Good morning. It is good to see you again. You did not take the opportunity to talk about standards in any way. I know that you were focusing more on the financial aspects and certainly the future viability of even the staffing of our universities down the road, but I guess I talk about standards in the sense of quality.

One of my great concerns in the last few years has been the increased enrolment in universities without the resources, the resources, to go with it. I think certainly from your point of view as now presently the critic for the Progressive Conservative Party, I have access and make it my business to travel a lot more and hear from students. They tell us that in many instances they are not as happy about contributing—I understand that people feel differently 10 years down the road after they have left a university—than when they are on the road as graduates of the universities, because they just feel cheated with regard to the sizes of their classes and the amount of time they have with their professors. I wonder if you would comment on this whole accessibility and enrolment trend that the students are facing.

**Dr Graham:** I can assure you that faculty members do feel cheated and feel that the question of quality is something that must be addressed. Faculty members also do not like to be faced with hordes of students they cannot teach and cannot deal with on a personal basis. It is very frustrating. There has been as a result a lot of bad morale among university faculty. They felt teaching should be a noble and an idealistic career, yet when you are faced with the kind of numbers we are faced with, continual cutbacks in funding and a shortage and impossibility to teach people in a field, then obviously the quality is going to suffer and the quality has been suffering.

The way to address that, we believe, is to begin to hire more faculty. We are concerned that one of the consequences of doing that might be the necessity to cut back on enrolment and accessibility. We think the inevitable consequence of cutting back on accessibility would be cutting back on accessibility for the people who are already at risk, people who are from the minorities, from the poor, from the aboriginal people, the very people we have to begin to get into our institutions and give an equal opportunity to.

There is no doubt that it is a very difficult situation. Quality is slipping and even in a time of recession it seems as if that a government should be looking towards the

future and saying, "What can we do now to ensure that when the recession is over people will come out of it with some education and some skills instead of simply with social problems, crises, more hunger and more poverty?"

**Mrs Cunningham:** You talked about the request you have for some discussion around Vision 2000. I am wondering if you see, as an active part of that discussion, the students of both the colleges and the universities, as well as the universities and colleges, being very much a part of that discussion. I am not just talking about standards when I ask you the question. I think in Ontario we have to look at what we are doing and why we are doing it. I know that is what Vision 2000 is about, but I see it as not being a credible discussion if all the partners are not part of it, even the secondary schools.

**Dr Graham:** I agree with you entirely. It is certainly our view that we should be looking at education from a holistic point of view. Universities have been too long considered aloof and apart from the system. That is as much a fault of people on the inside as people from the outside. We have to begin to look at universities as part of a large public-institutional higher education system. That includes primary schools and secondary schools and our college system.

We are very much interested in what happens to our colleges. We believe there should be a much closer linkage between colleges and universities and between universities and secondary schools. If we are going to make some changes in terms of increasing the diversity of our universities, it means that we are going to have to bring people through the primary and secondary school systems having some sort of a chance to take advantage of post-secondary education.

That means getting rid of certain programs such as streaming which already tell people from certain backgrounds that they do not belong, that their job is to be part of the people who have the bad jobs, to quote the little document about "good jobs, bad jobs." Certain people are already targeted from primary school as being part of the "bad jobs" category.

1040

**Mrs Cunningham:** We should maybe talk about what bad jobs are these days too.

**Dr Graham:** We want to make sure that people have an equal chance at the good jobs, and that means linking all forms of our education. Yes, we are interested in Vision 2000. We would like to see recommendation 40, which is the implementation committee, get off the ground and we would like to play a role in that discussion.

**The Vice-Chair:** I would like to thank you, Mr Graham, for your presentation and submission to this committee.

ONTARIO PUBLIC SCHOOL BOARDS' ASSOCIATION

**The Vice-Chair:** We have the Ontario Public School Boards' Association. Mr Checkeris, would you introduce your colleagues?

**Mr Checkeris:** Yes, I will. My name is Ernie Checkeris. I am a trustee with the Sudbury Board of



Education and president of the Ontario Public School Boards' Association. I have with me Pat Hillhouse, a trustee from the Halton county board; Lorraine Nowina of the Etobicoke board, a trustee, and Nancy Bentley, who is with the Lambton county board.

In addition to that we have Ron Sudds, superintendent of business from Northumberland and Newcastle Board of Education; Penny Moss, our executive director of OPSBA; Bev Allen, the director of legislation and finance for OPSBA, and Cynthia Campbell is somewhere.

We are pleased to be here to present our views to you, as the members of the standing committee. I would like to say that OPSBA represents 94 public boards in Ontario of all sizes. We serve 1.7 billion students and adult learners and we speak for the public education that represents the collective interest of public school trustees across Ontario.

We have brought with us a formal brief—you have it before you—Ontario Public School Boards: Meeting the Challenge. In addition, we have given you a group of reports that you can perhaps use for background at your leisure. We do not intend to read our report. We will be discussing it and various trustees will be taking time out to tell you from their point of view parts of the report.

I do not have to remind you that there are in fact two levels of government with the responsibility for delivering and funding education for our citizens. Trustees and boards of education are in fact a government. They do collect taxes inasmuch as the Ontario provincial government does as well, so we are talking on a government-to-government basis.

We are all very well aware of the NDP election promises to raise the provincial share of costs to 60%. We have examined the issue of 60% funding and concluded that what is needed is an action plan to overhaul the existing grant program in total. What is needed is a review of school board governance and political fiscal accountability. We know it is not going to happen in a hurry. It will not happen overnight, but we do hope that in the joint government-to-government process, where we can sit around one table and attempt to resolve these fundamental issues, some action will take place. I would like at this time to ask Pat to kick off the first session.

**Ms Hillhouse:** As Ernie has said, we are interested in your whole issue and presenting to you, obviously, on the issue of the financing of education. The area I am going to talk about is very much in the long term. Ernie has already referred to the fact that our association, among others, including standing committees or select committees of this House have come to the conclusion that a massive overhaul of the whole system of financing education is indeed necessary in this province. What we need to be looking at and what our association is presenting for your consideration are some basic questions about, what should education be responsible for in today's society? How much should that cost to deliver? Who should be paying for it and how?

In our briefs which we have presented to the government, we have suggested a model for consultation on education finance that focuses on the government-to-government issue, as indeed school boards are elected govern-

ments responsible for the delivery of service and responsible for taxation in their area. The best form of consultation that we can see would be between the provincial government, which has a broad area of responsibility and local school boards, public boards, separate boards, francophone boards, represented by their various associations.

This government has already indicated its intention to set up a fair tax commission to look at a variety of issues dealing with taxation at a variety of levels within this province. Our association is asking you, in your submission to the Treasurer and to the government, to support our request that the Ontario Public School Boards' Association should be part of that fair tax commission in terms of representation on the commission and on its subcommittees.

As I said, we are looking at a process of consultation around the areas of education finance and consultation around the role and responsibilities of boards of education in the province. We see this as an area that requires clarification. Education, over this last number of years, has taken on or has been allocated responsibilities which formerly fell to a number of different agencies and ministries, in terms of community and social services, health, recreation and in fact on into the whole areas of justice, to juvenile detention centres and the implementation of the Young Offenders Implementation Act.

So what we are recommending is that these negotiations, these discussions between the two levels of government should involve not just the Ministry of Education but the other ministries which are concerned, and with services to young children and their families. These are long-term issues that we know will require time to study and time to implement. We also know that you are focusing on so many short-term issues. We do not feel that all of the issues that are facing school boards are necessarily long-term. There are some short-term remedies that can be brought to bear and can assist boards of education in the financing of education and on the effect on the local taxpayer significantly in this time, in the recession, when local school boards are also facing taxpayers who have significant difficulties.

I am going to ask Lorraine to talk about some of the short-term issues that we believe your committee could make some important recommendations on.

**Mrs Nowina:** There are a number of interim legislative and policy changes that OPSBA is requesting for immediate solutions in the upcoming budget. I will be dealing with four areas: the general legislative grant, English as a second language, pay equity and cash flow.

I think it is somewhat ironic, as a trustee from the Metro area, when I am dealing particularly with issues of funding transfers, to note that as a representative of a Metro school board, we receive no moneys from the provincial government for education. We are funded at a zero or a negative grant rate.

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However, the first area I would like to draw your attention to is the 1991 general legislative grant program. Within there are two specific recommendations I would like



g forward, I would also like to remind the committee OPSBA has asked for an 11% increase in the GLG it. That 11%, we feel, is necessary to ensure a moderate education mill-rate increase. We need to recognize the 1 property taxpayers who have fixed incomes, and we that 11% is a necessary figure for us.

Specifically, OPSBA would recommend that the government allocate a significant portion of the operating funds for education to the basic per-pupil grant of the general legislative grant program. Essentially, this is needed to bridge the gap between the real cost of education and the recognized or the ceiling expenditures that we receive through the GLG. I think it is important to note that the underlying principle in this request is one of equity. We need to have equity of opportunity and to equalize the funding across the province.

A second recommendation for the GLG is that OPSBA has that adequate notice and a phase-in of all potential changes to the 1991 GLG program occur so that we do not have any major surprises.

Another area that is covered by the GLG is English-as-a-second-language funding. Currently, the established program financing is that federal-provincial mechanism where funds are shared to deal with every language education need of our immigrant groups. This funding essentially is used on post-secondary education. The public school boards are playing a significant role in the language instruction for both the adults and the children in our school system, and we must have access to these federal-provincial funds.

As a Metro trustee, I would like to relate this issue particularly to what is happening in Metro. Metro is currently receiving 25% of the total immigrant population that is arriving in Canada. I have a school in my area which for the past five years has had an immigrant population of between 75% and 80%. At the beginning of the last school year, out of that 400 school population, there were perhaps 100 Somalian refugee children. By Christmas, that figure was over 100 kids. So 25% last year, and the enrolment is increasing all the time, but those Somalian refugees represent between 30% and 40% of the total school population.

The majority of those students are in the primary grades, so you have kindergarten classes, grade 1 classes, and so on. Out of 20 kids, 10 or 11 of them are Somalian refugees. You are dealing with a population that is not only suffering from the ravages of war, but young children who are tribal, nomadic, a desert people that come from an oral tradition where not only do they not know how to read and write, their parents are not familiar with the written word in their own language. It is a critical issue and it needs to be addressed. Certainly in terms of Metro, no matter what funding has been, we receive nothing to deal with these extraordinary expenditures.

Another issue that I would like to raise is pay equity. OPSBA is very pleased to hear that the government is recognizing pay equity affecting some public sector employees more than others. I do not know whether there has been recognition that there are extraordinary costs for school boards, that some school boards are affected certainly by pay equity arrangements more than others, but

should the elementary teachers achieve their current objectives, there will be significant impact across the province. We are asking that the extraordinary pay equity costs of school boards be funded from this fund, as opposed to the general legislative grant offered by the Ministry of Education.

The final area I would like to talk about is cash flow, and there are two areas of cash flow. One is from province to school board—and I will try my best since I have never really had experience with that kind of cash flow. Specifically, we are asking for changes in the way the money flows to us. We would like 25% in the first three months and elimination of the 7% holdback. It should be noted, I think, that as far back as 1985 with the Macdonald commission, it was recognized that school boards need to have the funds transferred from the province on a monthly basis as expenditures are incurred with, particular emphasis on the first three months. Provinces can borrow money at better rates and there is a net reduction in public expenditures.

What we are really looking to do is to help our local property taxpayers, and I am sure that is the direction that this committee and this government also would like to follow.

The second area of cash flow issues is from municipalities to the school boards. I am not sure of how many are former trustees here or how many are former councillors, but OPSBA would ask that property taxes be transferred to school boards as they are collected. We are responsible for levying the taxes, we are accountable to our taxpayers. We should have access to those dollars to spend them as efficiently and as effectively as we can.

Now I would like to turn it over to Nancy Bentley.

**Mrs Bentley:** Thank you. I want to just speak briefly to another aspect of property taxes and then to concentrate on several issues with respect to the capital funding of school boards.

Payments in lieu of taxes, both at the provincial and the federal levels, are an issue of considerable concern to public school boards throughout the province. The properties of the federal government and the provincial government do not pay property taxes on the same basis as do other properties, but pay instead payments in lieu of to the municipality. Some of these payments in lieu are shared with the school sector and others are not. Basically, at both the federal and the provincial levels, the only payments in lieu of that we receive are those that are connected with residences or tenant-occupied properties.

For example, at the federal level, we do receive the payments in lieu for defence properties and residential properties owned by the federal government. At the provincial level, we have a similar situation. For example, under section 160 of the Municipal Act, the province is paid \$75 per bed or student in institutions such as correctional institutions, schools and hospitals. These are not shared with school boards, and yet the school boards are providing services to all these properties.

Another example at the provincial level is property owned by Ontario Housing Corp. For those tenants, we do receive those payments in lieu of. The Macdonald commission identified this inequity of the property tax policy



and recommended that the government of Ontario require that all payments in lieu of taxes be shared equitably among school boards and municipalities.

In 1982, a very long time ago, the sum of school boards' lost revenue through not receiving their fair share of all payments in lieu of was estimated then at \$120 million. So it could represent a considerable revenue for school boards, and we feel there is a good reason to rethink these existing policies because payments in lieu of really are a replacement for property taxes. The school boards and municipalities are funded on the basis of property taxes. So OPSBA recommends that all payments in lieu of taxes, federal and provincial, be shared equitably between school boards and municipalities on the basis of their respective mill rates.

Another situation exists around telephone and telegraph taxes. The Municipal Act provides for the sharing of telegraph and telephone taxes in the jurisdiction between a municipality and a school board. However, in many areas of the province, such as the north, there is not municipal organization but there is, however, a school board.

Last year, again, an estimate of \$2 million a year in local revenue was paid to the Ministry of Revenue and does not benefit the local school boards at all. Those payments go directly to the Ministry of Revenue. So we do recommend that the Provincial Land Tax Act be amended to enable the equitable sharing of taxation from telephone and telegraph with the local school boards in those areas without municipal organization, which would again mean a considerable revenue would flow to school boards, which we believe should rightfully be shared with them.

The capital needs of Ontario school boards have been rapidly escalating over the past five years, as I think most of you recognize. The past provincial government, in recognition of this need, did commit \$1.5 billion over a five-year period. That meant that \$300 million was made available to school boards since 1989.

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In spite of that financial contribution, there remains a considerable backlog of need for new schools, permanent accommodation to replace portables, and particularly renovation. More than 20% of schools in Ontario are over 50 years old.

A good portion of the capital allocation grant program is going for population growth. As you are well aware, in the growth areas of the province much of the capital allocation is being given to those boards that have growth problems. This has added in great measure to the backlog in renovation capital that is required by other school boards.

We would like to point out that there is a direct relationship to the lack of receiving capital allocation by those boards that particularly need it for renovation or replacement schools, because in many cases the students are being bused across very large areas of counties and municipalities and the cost of that transportation is increasing your regular operating expenditures. The recognition of the capital needs would alleviate some of the operating expenditures.

There is a chart included with your information just illustrates the needs as they exist. You will notice the bottom of page 16—the site purchase and new places; that is, the need for new schools—the dollars were allocated in 1990 were \$254 million. The school board requests were in excess of \$1.1 billion. I think it is only fair to comment that that really probably does represent the full extent of the need because school boards have to be very careful in justifying a need and are extremely aware of the budgets and the mill rate that they have to pass on as a result of these expenditures.

Then if you look below that at renovation and replacement, the dollars that were allocated were \$42 million and the requests were \$330 million. In that area in particular you may be confident that the needs are much higher because school boards are not able to pass on any millage to the local taxpayer. As you know, last year, most of the mill rates across the province were in the double-digit region, so that represents the very minimum of renovation allowances that are needed. In other words, only 12.8% of the projects requested were funded. That gives you a pretty quick picture of the needs of the system.

OPSBA did appreciate very much the five years of government capital funding that was provided, the \$1 billion. That will be completed in 1994, and we would very much like to see this government continue that practice. It provides for a much more efficient and effective way of school boards managing their resources and in the end is better for the local taxpayer.

The recommendation then is that OPSBA recognize the past provincial government's contribution to school capital funding and recommends that this government enhance and continue the commitment to multi-year capital planning beyond 1994.

The \$700-million capital job creation fund was certainly a welcome announcement from the government. We feel that it was an extremely good use of the province's taxpayers' money because it will create employment in regions of the province that are hard hit by the recession.

We are aware that government announcements will be forthcoming as to the allocation of the \$700 million and it is naturally the hope of the education sector and the public school boards that this significant allocation will go to school capital and renovation.

We understand that 1991 is going to be a very difficult year, but we would like to recommend to you the continuation of the job creation fund, as it will continue to provide employment for those hard hit by the recession and it will address the issue of school board capital funding for much needed capital projects. It will be a win-win situation for both our students and our citizens.

OPSBA urges the provincial government then to allocate more dollars to the job creation infrastructure fund in the upcoming 1991-92 provincial budget for public infrastructure, which would include school capital.

The other aspect of capital funding is the program itself. As you know, the ministry assists school boards in financing of their capital projects. It includes new school site purchases replacement and, as I have said, renovations. At present, the approved cost for a capital project



the average rate of 60% for new school sites and 75% for other renovations.

We feel that the present capital program is inadequate to meet the needs of communities today. We are not speaking just to the adequacy of the funding to be provided to schools of education, but also to the actual structure of the program itself. There are several areas where the policy issues need to be addressed, we feel, in a comprehensive review of the approach to our capital grant program.

I would just like to draw attention to several of those issues. One key area is the allocation process by which funds are made available to boards and the criteria that are used in granting those allocations.

Prior to the allocation process, boards of education spend considerable time and energy and dollars in making proposals to the government for these capital allocations. After the allocations are received, it is very difficult for boards of education sometimes to determine why their allocations were not received because the criteria are not published in such a way that the boards can readily associate the allocations when they are given with the criteria. There is a need to have that thoroughly reviewed and, I think, for all boards of education to understand how the criteria will be applied and be readily able to observe that for the fact.

There is a continuing need for review of the policy for the ministry's funding criteria of rated capacity and operational capacity, which certainly do not gibe. In terms of the rated capacity for schools, it is impossible for us to load schools at that level, and now especially with the last government's initiative of lowering the pupil-teacher ratio in grades 1 and 2, this does not relate to the way school boards are funded for the capacity of the schools.

The permanent rated capacity that is now acknowledged by the ministry capital plan is 90% of 35 students in a classroom. Yet in grades 1 and 2 we only have 20 children, so we are funded at the 90% of 35 students. I doubt if any boards have over 30 in their classrooms or wish to have, and in grades 1 and 2 we are obliged to have 20, so funding criteria of rated capacity need to be reviewed.

We would like to see more flexibility that would encourage innovation through lease arrangements and shared community facilities. I just speak briefly to that. The green paper on finance in 1988 encouraged "innovative methods" for funding education, yet the ministry guidelines and the Education Act do not provide for such innovation.

We would like to see more flexibility for developer and school board agreement and multi-year planning and financing and leasing agreements. While these have been encouraged in the green paper, the legislation does not permit that kind of flexibility for school boards.

Another area is that joint projects should be encouraged with coterminous boards and with local municipalities and community colleges. This in fact has happened in both county, Etobicoke and Elgin county. It would be appreciated if ministry guidelines could be forthcoming with respect to the sharing and joint projects with other school boards and municipal bodies.

To sum up then, OPSBA supports the Ministry of Education's review of the capital grant program but does

urge consultation on such key policies as the funding criteria, the allocation process, permitting flexibility and innovation and providing guidelines for that.

Child care capital is another area in which there is some confusion. While it has been indicated that school boards may provide child care or make provisions that it be provided within the school system, the funding capabilities continue to be inequitable. Boards that are building new schools or purchasing new school sites can do and provide space for child care. Boards that are not in a growth position at the present time have no funding and with the rated capacity have no possibility of putting child care in the schools. The whole area of child care capital needs to be examined and clarified for everyone concerned because at the moment there is considerable confusion.

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Our last recommendation is that the Development Charges Act has not so far provided the funding for school boards that we had anticipated, or that the previous government had anticipated, I should say. I had better clarify that one. Because this funding is not forthcoming or we are having great difficulties with it, due again to lack of clarification and procedures or progress in that area, we would like to recommend that the provincial average support rates for capital funding be raised to the 75% provincial average from the present 60%. OPSBA recommends that in the 1991-92 provincial budget the government include an announcement that school capital projects will be funded at a 75% rate of grant.

**The Vice-Chair:** Since we have gone into 30 minutes just on the presentation, let's see if we can get one question from each person who has his name down. Mr Sutherland is first, and then Mr Fletcher and Mr Phillips.

**Mr Sutherland:** You said that you would like an 11% increase in the GLGs for this year and you said that that would probably mean a moderate increase in the mill rate for people. I am wondering if you could be a little more specific in terms of what type of real impact that would have for this upcoming year, and looking at the issue in the longer term—certainly the Minister of Education was here yesterday and talked about the commitment of moving back to the 60-40. Before that can occur, I guess you have to get both levels to agree to the 100% level. I am wondering if you could give some indication as to where you think municipal increases would be even when we got to a 60-40.

**Mrs Bentley:** Yes, I think that we all recognize that if we are talking about relief for the mill rate, then it is not a solution simply to provide more funding for the education sector, because in all probability the municipal sector would then move into some of that space created. I think what we are saying is that the Fair Tax Commission will be looking at the whole area of municipal-provincial programs and finances and that school boards are major players in this picture. Within municipalities, school boards invariably are collecting over 50% of the taxes and, as such, we have to be players and major players in the review of these situations, recognizing that there are not



simple solutions in the long term but that there are some things that we can do in the short term.

**Mr Sutherland:** Could you just comment on the 11% that you were asking in increases in GLG? You said that that would probably mean a moderate increase in the education portion of the municipal bill. I was wondering if you could be a little more specific than just "moderate."

**Mrs Bentley:** There have been some fairly reliable estimates that school boards' budget costs will increase by approximately an average of 14% this year, so when we say an 11% increase in the transfer payments, we are recognizing that this is a difficult year for all governments but that an 11% increase in the transfer payments would enable school boards to hold that mill rate increase somewhere below what it was last year, when in many municipalities it was certainly well into double-digit increases.

**Mr Checkeris:** I think it is fair to say that when we talk about 11% across the province, there are municipalities and areas where school boards will get much less than 11% because of their industrial-commercial assessment, etc. Other school boards will require 14%, 15% or 16% to meet that average 11%.

**Mrs Nowina:** If you take a look at how that 14% or 11% is broken down, we are dealing with such things as the impact of GST, mandatory junior kindergarten and lower class sizes, the health tax and enrolment increases. They are pretty basic things that we are talking about that represent that 14% increase.

**Mr Fletcher:** I have a question and maybe a comment or two. First, let me say that I have always supported OPSBA, in more ways than one. I was just wondering, does OPSBA believe that lot levies are the solution to the funding situation in Ontario? I will ask Ernie that one if you like.

**Mr Checkeris:** On the one hand or the other hand—I do not ask me how you want me to fund school boards; I am quite radically different from others—but lot levies are just another way of transferring the cost to people. It is another tax, as far as I am concerned. The policy committee has a different opinion. We have mixed emotions across the province with respect to lot levies or development charges or whatever you want to call them.

**Mr Fletcher:** I have one other statement and that is that I agree that we should be working together with OPSBA as far as consultation is concerned, but we had a group in yesterday, the Ontario School Board Reform Network, and I know they were also members of OPSBA, and they tout a different tune than what OPSBA is touting today, this splinter group.

Which group do we listen to? Do we go with the reform network and say, "You are the people we should listen to and you can consult"? I know that some members across from us were very impressed with their presentation. I was not, really. I thought that OPSBA should be here giving us a presentation and you are the group that we should be working with, but if you are acting together, how can we do anything about it?

**Ms Hillhouse:** I think the president is going to comment.

**Mr Checkeris:** Trustees, like everybody else, are humans and we do have dissident groups. I suggest to that that dissident group is dissident within its own school board and I suggest to you that they do not represent the school boards that they are talking from and it is really important to us that you recognize that. The reformer part of OPSBA and we have answered their questions, we have had workshops to indicate the governance as we see it, as we believe the Education Act permits us to do it, that is not going to stop them. It is still a free country and respect their opportunity to do it.

**Mr Phillips:** This is a subject of considerable interest to me because, as you probably know, I used to be chairman of the Metropolitan Toronto School Board. I would say that of all the issues that affected me in the election this was probably the most significant one. Frankly, I think several of our members were defeated on it. I think a lot of property taxpayers are looking for the fulfilment of a commitment that was in An Agenda for People on the 6% funding.

My question really to the group is twofold. We heard from the minister yesterday that included in provincial support are capital expenditures and teachers' pensions. On page 12 of your document, The Sixty Percent Solution, at the bottom you have a table there essentially saying that we should get back to the 1975 split between the provincial and local. Could you just give us some indication of what pension and capital funds would be in the provincial support in 1989 and in 1985?

**Mr Checkeris:** Maybe Ron Sudds could answer that one. I do not think I can.

**Mr Phillips:** The level of pension and capital in 1985 was \$4,129,000,000 and \$1,629,000,000.

**Mr Checkeris:** As you know, it was a few years ago when they incorporated the superannuation into the education budget and claimed that they were paying more than 40%.

**Mr Phillips:** I think the minister yesterday said that those numbers are in the provincial support. I am just trying to get some idea of how far we have to go.

**Ms Hillhouse:** I really do not know, Mr Phillips, my understanding is that in 1975 probably they were not.

**Mr Checkeris:** They were not. I know they were not.

**Ms Hillhouse:** One can play with figures and one can get hung up on 60%, 50%, 70%. Our basic question is 60% of what? For us to be throwing numbers back and forth between school boards and the provincial government, between municipalities and school boards does not solve anything. I think we go back to the basic question we have raised: What should education be doing? How much will it cost to deliver those kinds of services?

**Mr Phillips:** They are not in there?

**Mr Sudds:** They would not have been included prior to 1988 is my understanding.

**Mr Phillips:** And they are in the 1989 figures?



**Mr Checkeris:** They probably are.

**Mr Phillips:** Pension funds and capital?

**Ms Hillhouse:** Yes.

**Mr Checkeris:** I recall the Minister of Education doing up and saying that the boards were receiving more than 40% and indicating that superannuation payments were included. They were not before.

**Mr Phillips:** Let me just have that confirmed. The point is that it is the way that either property taxpayers pick it up or provincial sources of revenue pick it up.

**Mr Checkeris:** That is right.

**Mr Phillips:** I think it is important. The other one is the commitment of 20% funding to the Metropolitan Toronto public board, which was major in the campaign. How much revenue is the Metro board expecting as a result of that commitment? I gather right now it is zero. What sort of impact might that have on the property taxpayers?

**Mrs Nowina:** I think from a Metro perspective, if I digress a little bit from OPSBA, there is also a question of 20% of what and what that 20% means for Metro. They are very cautious in terms of that particular promise, because if we are going to get 20%, we may have to give that that really becomes an issue of provincial pooling of—

**Mr Phillips:** Was that the condition of the promise? It was not during the campaign.

**Mrs Nowina:** No, that is a concern that Metro has in terms of that particular promise.

**The Vice-Chair:** If you contact her after, maybe we could get all the answers.

**Mr Phillips:** No, these are fundamental—

**The Vice-Chair:** Yes, yes.

**Mr Phillips:** I mean, 20% of Metro costs is \$400 million, I think, and that was a commitment made during the campaign. We are going to have to give the Treasurer the advice on how he can carry out his commitments or I am just trying to get an idea of what those commitments mean.

**Mrs Nowina:** I believe on Metro budget—we have formulated—we are talking between \$1.5 billion and \$2 billion.

**Mr Phillips:** That is the range you are at right now?

**Mrs Nowina:** Yes.

**Mr Phillips:** Are you not into your fiscal year?

**Mrs Nowina:** We are into our fiscal year, but we have brought back our target budget.

**Mrs Cunningham:** It is a pleasure to see all of you before the committee today. Interesting to note that many of the things you are asking for we were asking for in 1983, and some of the recommendations at the back will not take the political courage or the bureaucratic courage to change them, because they are very simple when it comes to some of the recommendations you are making. I can, I could be very specific; I starred some of them at the back, 7, 8, 9 and 10 for certain just take the political

will to get the work done around this building and sometimes not much happens.

I would like to ask a question with regard to process, because I am particularly interested in who will be advising this government, and not only the political arm of the government but the administrative arm of the government. You talk in your first two recommendations about your hope to be part of the Fair Tax Commission, either by way of the commission itself or a subcommittee of the commission. Then I think I read somewhere in this brief that you talk about having a concurrent discussion with regard to funding education.

I think that Mr Fletcher raised a good point. I mean, whom does one listen to any more? But I would hope that the public school boards of Ontario would have a very real voice in these deliberations. So would you take the time to very clearly tell me the process that you want. I do not understand the concurrent deliberations and the purpose of them.

**Ms Hillhouse:** Yes, I would be happy to answer that. What we are talking about here are basically two parallel groups: the Fair Tax Commission, which will be examining all areas of taxation and responsibility, accountability within the province, and at the same time school boards and the provincial government—school boards through the various trustee organizations, the provincial government and an interministerial group looking at the basic questions of policy; again I say, what should school boards be accountable for providing?—and then feeding back and forth that information into the Fair Tax Commission. Because it seems to us that the issues that have to be decided around what kind of education, what kinds of systems, what kinds of programs are we supposed to be delivering, go well beyond issues of taxation, go into issues of equity, go into issues of relevance to today's world, go into issues of society's needs to date. We must have those questions being answered at the same time.

**Mr Checkeris:** I think, if I may as well, we have offered from the very beginning with the new government in place the opportunity for them to take advantage of the practitioners we have in the field. We have a lot of top-notch people in the field who are both in the educational area as well as in the school finance area and their experience is very valuable. We have offered that partnership to the government. We would like very much to say to our people that government has co-operated, it has listened to us.

We know you have to make up your own minds; that is okay. We do not want consultation by letter saying, in effect, "We've been informed that the trustees have been told," and then we hear about it as a first reading of a bill. We want to be actively involved. We have the potential; we have a large staff that is ready for your service.

There have been a lot of unanswered questions here. I am prepared to offer you those people's facilities now. Phone them, use us, call trustees and we will be able to meet with you at any time. We want to make this a fair thing because, after all, our function is to educate children and as somebody said, "That is the future." It is the only



future we have, regardless of how we look at it. If we do not do a good job, we are failing them.

**Mrs Cunningham:** A quick supplementary: Have you had discussions with regard to this process with the minister and have you had any indication that she is going to respond positively to your request?

**Mr Checkeris:** In my many years as a school trustee, it is the first time that I have ever been able to sit with the Minister of Education and the Treasurer of Ontario and their staffs and be heard by them. I have never had that opportunity before. It was an excellent discussion and I suggest to you it augurs well as long as we continue with that process.

**Mrs Cunningham:** So you have great hopes.

**Mr Checkeris:** I have great hopes.

**Mrs Sullivan:** As the next group is coming before us, since we are expecting the Treasurer to be with us on Thursday, I wonder if we could make a second request to Treasury officials to provide the information that was asked of them when the hearings began last week.

**The Vice-Chair:** Okay.

#### COUNCIL OF ONTARIO UNIVERSITIES

**The Vice-Chair:** The next group we have here is the Council of Ontario Universities. Welcome to the standing committee on finance and economic affairs. Mr Prichard, would you introduce yourself and your colleagues.

**Mr Prichard:** My name is Robert Prichard. I am the president of the University of Toronto, but I appear here on behalf of the Council of Ontario Universities and not just on behalf of my own institution.

The Council of Ontario Universities is a voluntary organization representing the 16 universities of Ontario. Its council is made up of the executive head of each university, that is, the president of each, and one academic colleague from each institution, that is, one member of the professoriate from each university. So the council has 16 presidents and 16 professors on it.

Joining me today in the presentation, on my immediate left is Professor Ann Kittler, who is a professor in the school of business management at Ryerson. She is a specialist in computer auditing and computer information systems. On my far left is Grant Clarke, who is the deputy to the executive director of the Council of Ontario Universities. He is appearing in the absence of Dr Monahan, who would normally be here. On my right is Edward DesRosiers, who is the director of research for the council.

You may well ask why I would appear on behalf of the council. I am not the chair, I am not the vice-chair. Indeed, I am the rookie member of the council. I appear because the chair is unfortunately overseas and the vice-chair is in Guelph today and they asked if I would come and speak for them, but I do so, I openly acknowledge, as a rookie, not having appeared before you or watched others do it in advance and I seek your indulgence.

The brief we put before you is entitled A Recovery Plan for Ontario's Universities, and each of you has a copy of it. I do not intend to go through it line by line. I would be delighted to take any questions on it, but I thought what

I could probably do most usefully is speak to it rather than try to take you through the pages of the brief.

The origins of this brief and of this plan lie in what I would describe as the current situation of Ontario universities, which I believe is both a situation of crisis for Ontario's universities and a developing tragedy for the province and for the country. Those are strong words, but I mean them.

I believe that the current situation facing Ontario's universities is the worst in the contemporary history of Ontario universities, that in the past 20 years there has never been a situation of such serious harm being done to the Ontario university system and that the Ontario university system, relative both to other provinces of Canada and to an equally important, internationally, is falling and falling fast.

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The tragedy in this is, I believe, in doing what we are doing to Ontario's universities, is that we are shortchanging the people of Ontario, particularly the young people of Ontario. We are shortchanging them badly. We are doing harm to the universities, harm that it will take a long time to undo unless we move rapidly to arrest the decline.

You may well ask, why do I say Ontario's situation is particularly bad? I actually think the situation in Ontario, again to use a strong word, is now approaching a situation of almost scandal in terms of the support for higher education in Ontario relative to other Canadian provinces. Ontario, the most prosperous province in the country, at the present gives support to its universities, in per capita terms for students, that ranks ninth out of 10 Canadian provinces.

That strikes me as extraordinarily shortsighted, as an approach for Ontario, as the industrial capital of the country, as the economic engine of the country, to shortchange the higher end of education in Ontario to an extent that the underfunding has reached the point where Ontario would have fallen to ninth out of 10 Canadian provinces.

The comparison, if you look beyond Canada, is even worse. Not only is Ontario in this situation relative to other provinces of Canada, but the position of Ontario, which of course is in competition with leading jurisdictions south of the border, in that competition is even worse. To take an institution like my own, a public institution offering a full range of degrees including doctoral degrees, the funding for the University of Toronto is now 40% less than—and listen to the reference point—public state universities offering doctoral programs. So compared to the average across the United States of public universities—not Harvard and Yale and Princeton and Chicago and Stanford, not the private universities—offering doctoral programs, such as Michigan, Berkeley, Ohio and Pennsylvania State, Ontario's universities, like mine, are now 40% less funded per student than those universities.

No matter how imaginative we are, no matter how creative we are, no matter how hard our faculty and staff work, it is simply not possible to compete successfully with those kinds of conditions against us.

What harm has been done? I think the harm that has been done is devastating to Ontario's universities in terms of the quality of the educational experience offered



ents. Again let me speak of my own institution. We just developed a five-year plan to deal with what are the largest deficits in the university's history. That involves taking out 150 professors from the professoriate. Removing 150 professors involves cancelling Italian, German, on one campus, Spanish and native studies on another. It involves cutting program after program after program across the university as we shrink the professoriate by 150 members, at a time when we are, of course, at historic enrolment levels.

The demand for university in Ontario has grown and is not just among young people, but across people of all ages, full-time and part-time, undergraduate and graduate. At the same time we are ripping out of the faculty of arts 150 people. That in my view is extraordinarily shortsighted and is doing real, serious harm to the quality of the educational experience of our students.

There is another concern, and I think—I do not intend to be provocative in citing it—it actually worries me a lot in terms of the fairness of what is happening. There are many dimensions to this. The first is who gets hurt most in terms of what gets hurt most at the university when this happens. What gets hurt most are initiatives to try to get better—our initiatives, for example, with employment equity for faculty. If we cannot hire, if all we are doing is letting people go, we cannot change the gender balance or a racial and cultural balance in our faculty. We cannot have the most elegant of employment equity programs, but if we are not making appointments we cannot change the makeup of our faculty.

Similarly, if we want, as we do want, to strengthen our work in the area of aboriginal peoples within the university, we simply cannot do that if, instead of taking new initiatives, all we are doing is ripping out programs. The most threatened are the most vulnerable. It is the newest and the most vulnerable ideas that get hurt first as we pull back.

The second problem I have referred to publicly before is who is it who can avoid the effects of this underfunding? It is those who can vote with their feet. It is those who can afford to leave. The people who can afford to leave the province to get higher education are the ones least hurt. The ones who do not have the option of leaving are the ones most hurt. So I cite a school with which I am familiar, a private school in Toronto where over the last 23 years we have gone from less than 3% of the student body leaving Canada for higher education to now a figure well over 30% and heading for 30% of the graduating class leaving Canada for higher education. They are doing that because of guidance counsellors and the parents and the students have lost confidence in the quality of education available in Ontario and in Canada, and they are leaving because they have an income and wealth that allows them to leave.

But that is not an option available to most of the people I represent. It is not an option available to the great majority of people in Canada to leave to go to the United States and pay \$100,000 or more for an education. That is not an option available, but those are the people who are avoiding the effects of underfunding and overcrowding. The rest of our students do not have that exit option,

and that to me is a particular unfairness, that only the most wealthy in our community are able to avoid the effects of the current policy of gross underfunding.

Having said all that, I do not think there is really any debate, that is, I do not believe that any of your three parties disagree with the proposition that the past 20 years have led to a situation of very serious underfunding in Ontario's universities. I have met with leaders of each of your parties. Each of them has said that that is his or her position. The current minister has said in the House that it is his position. There is no ambiguity, I do not believe, on the proposition I put before you. The only questions, I believe, are questions about how to turn it around.

The issue is, how do we repair the situation—not further document the situation, which I say I believe is a source of widespread agreement as to the devastation that is happening, but rather in a difficult fiscal time, in a difficult recessionary time, how do we, with maintaining our commitment to public universities, turn the situation around? That is what the plan for recovery is directed to. This plan for recovery included in our brief has been unanimously adopted by the Council of Ontario Universities, that is, it is supported by the full council and is put forward to the minister, to this committee, to the people of Ontario as a plan to reverse the current decline and give us a much brighter future for Ontario's universities and the quality of education offered within them.

The goals of the plan are threefold, three goals only: quality of education, access to higher education and equity in higher education. Those are the three goals: quality, access and equity.

The nature of the plan is a multi-year, four-year plan to move Ontario's universities back on to a path which will allow them to be competitive with the best institutions in Canada and in due course compete more successfully with the best institutions beyond Canada's borders. It involves a base increase in the budgets for Ontario universities in total, in aggregate, of \$410 million spread over four years. So it is just over \$100 million a year for each of four years to move Ontario's universities first to the national average of university support and then modestly beyond the national average by the end of the four-year period.

How is it to be financed? This is the most difficult part for all of us in the university system, and in saying this, it is the most difficult not just for university presidents but it is the most difficult for students, for staff, for faculty: How, in a difficult time that we all face in the province, should this be financed?

It is our judgement at the council that, while the best way to finance it would be to increase the base allocations in the MCU budget for \$410 million, in the circumstances we find ourselves in in the province, we are prepared to support accomplishing this through a combination of increased budgetary support for MCU and increased contributions by students. We say that with no particular pleasure, no particular enthusiasm, the latter part of that recipe for calling on the students to carry a heavier burden, but it is our judgement on balance that the quality of education of our students is so critical and that the circumstances of the province are so tough that it is the only



option realistically available to the government at the current time.

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Having said that, I should hasten to add that the structure of our proposal of increased tuition fees and increased government grants is designed so as to not only protect current levels of access in the universities through improved financial aid for students, full-time and part-time, but more than that to increase the penetration of universities into those communities historically underrepresented. That is why we call for an equity penetration program to reach out into those communities like the black community, like the lower-income communities of Ontario, which are historically badly underrepresented in Ontario universities, to reach out affirmatively with the high schools to bring those people into universities.

It is our judgement that despite the increase in tuition that we recommend, we would end up with a system of much higher quality, of at least as good accessibility and of greater equity in terms of the representation of students within the student body of the Ontario universities.

Just let me close by indicating the reaction we have had to our plan since we released it about two months ago. There is, I believe, unanimity among the Ministry of Colleges and Universities, the Ontario Council on University Affairs, the government's advisory on this subject, the confederation of faculty associations, the federation of students, the staff associations, the alumni associations, the board chairs. Everybody, I believe, agrees about the need, about the amount of the need and about the urgency of the need. I believe there is complete common ground in that respect and I believe that common ground is also shared by both the opposition parties.

The only point of serious difference that has arisen is the question of how to finance it, and that is a difficult question. That is, it is a difficult question to deal with the fairness. Is it an improvement in fairness, as I believe it is, to ask the students in the current circumstances to share a heavier burden? That is a point on which there are legitimate differences of view, but that is the only point of difference in all our discussions with the government and with others as to the wisdom of this plan.

What the minister has done is he has convened a special advisory group representing all the constituencies I referred to. We are working hard. We are looking for alternatives. We are trying to find solutions. We are trying to find ways that, as a matter of urgency, no later than the budget which comes down this spring, put in place a multi-year plan for the recovery of Ontario's universities.

Let me just close by saying that I believe the stakes are large on this. I think we have gone too long. I think we have let the situation go too long, to a situation where it should be a source of embarrassment to Ontario to find itself one from the last in Canada and way below our competitors in the United States, at a time when we have committed ourselves to open North American and international competition, at a time when the quality of mind and the quality of education and the quality of infrastructure will be so important for Ontario, not just in terms of the

economic welfare of the province but also in terms of cultural and social welfare of the province.

Fortunately, and this is unlike some of the other problems you are confronting as you have these submissions, the amounts of money involved in this case are relatively small; that is, \$410 million. Fortunately it would make a lot of difference and is not very much money relative to the magnitude of the other issues you face. Indeed under our proposal only two thirds of that comes from public funds. For a relatively modest investment, a large and important increase in access equity and quality can be achieved.

I am very grateful for the chance to have put that plan before you. With the chair's permission, perhaps I could invite my colleague Professor Kittler to speak for a couple of minutes, reflecting the perspective of a member of the professoriate, who are of course among those who are carrying the burden of the current situation.

**The Vice-Chair:** I might remind you that you have about 10 minutes.

**Mr Prichard:** Perhaps she could speak for two and then perhaps we could take a few of your questions.

**The Vice-Chair:** Fine.

**Dr Kittler:** I would like to speak, with your permission, on those three points: equity, quality and access. I would like to start off with equity. What I mean by equity is the students who come, their mix and distribution, as well as equity in terms of faculty and staff who will be there when the students come in to provide role models for these students. I would agree with everything Professor Prichard said concerning—we are trying to get particular at the historically underrepresented groups.

Research very solidly indicates that the decision to go to higher education is made much earlier than grade 12 or grade 13—way back early in high school, if not before that—and that one of the most significant factors influencing this decision is the attitude or knowledge of parents. That is why we have earmarked \$25 million, starting off in year one, that we will ourselves go back into the high schools and talk to the students. We hope that we can set up programs where we could convince them what they have to gain by a higher education.

In terms of the equity in terms of hiring, more than a year ago we at Ryerson made a decision that of the next 200 faculty retirements, more than 52 of those replacements would be women and another significant number would be from minority groups where possible. We got an award for this policy. The irony of it is that this policy is not being implemented simply because nobody is being hired. When faculty retire they are not being replaced. When faculty leave for other reasons they are not being replaced by additional full-time faculty. Therefore, we have some short-term temporary positions. Therefore, this really disfranchises the new people we would like to hire, whom we cannot hire.

On one other issue regarding equity, we have several disabled students with varying kinds of disabilities. It is expensive to deal with these students. We are working very hard on this issue. But we have difficulty trying to get



the students through to enable them to finish university because of the services they need.

I could give you a specific example about a student we have who is blind. He has a voice synthesizer and we are using a special program called Chem-CAD that the students need to use to work competently in chemical engineering. This student cannot use it because his voice synthesizer takes up too much memory within his own computer, and within any computer we can provide him, we do not have the opportunity to do the research to provide a similar package for him that would not take up a kind of resource that we can provide him. So he has to do something else. That is just one simple example.

One last point, since I know we are tight for time, is in terms of quality. I have been teaching for more than 20 years. I have seen the quality go down and down, but for the last two years it has been an order of magnitude worse. Each in some classrooms that were not designed for classrooms. They have posts in the middle that literally obstruct the teaching process. The students cannot see the board. I am a very good teacher. I work very hard at it and quality bothers me.

I have students who have no desks to sit at, no chairs. They are afraid to go to the washroom in case they come back and the seat is gone. In some classes it is that bad. I have only a certain person. The number of students I must deal with has way increased. No matter how much time I devote to it, the time I spend with students individually has decreased. The type of research the students can be involved with, and we are working hard at that at Ryerson, is being seriously hurt, as it is at other universities. Teachers are giving multiple-choice exams where it should be, in some cases, essay-type exams for the appropriate course. The time to do the marking and other things has been significantly reduced.

I honestly believe my students really are getting less quality than before and we are working hard at it.

**Mr Prichard:** That completes our submission.

**Mrs Sullivan:** I have heard both Dr Prichard and the other presenter, Mrs Kittler, present before, and as usual they speak with great passion. I want to get right to the gritty of your proposal. As I understand it, what COU has put forward is that the ministry continue with its \$2-billion commitment to the university sector, that \$70 million a year be committed for each of four years from the ministry, plus an additional, in round terms, \$35 million a year which would come from students, for a period of four years.

I look, however, later into your proposal and I see a discussion of a trust fund and a suggestion that the funds would become part of the ongoing funding base of each institution. Basically, are you not asking in the beginning for an additional \$100 million added to base each year?

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**Mr Prichard:** The proposal is that we in effect ramp up at \$100 million a year over the four-year period. The cumulative effect would be that at the end of the four-year period we would be \$410 million higher than we are today in real terms. Over the course of those four years of recovery,

the funds, both the tuition-fee funds and the government funds, all go into a trust fund to be spent for these three purposes alone—equity penetration, accessibility maintenance and then quality—to be spent only by approval, the funds only to be spent with approval of a committee including students at the OCUA on it, and at the end of that period of recovery, then that new base would go into the general base of the university.

The commitments that will be made on those, the new appointments, the new programs that will be in place, will then be in place in the university. So as we ramp up, the commitment of those funds will take place into agreed-upon areas for quality enhancement beyond equity and accessibility. But yes, at the end of the four-year period, the base of the Ontario university system would be \$410 million higher than it is today if one includes tuition-fee revenues as part of the base, which is a slightly different terminology than historically has been the case.

We are suggesting the revenues available to the universities would be \$410 million higher than would otherwise be the case.

**Mrs Sullivan:** But in annual commitment from the government, you would continue to be looking at a similar portion in annual operating transfers?

**Mr Prichard:** After the four-year period?

**Mrs Sullivan:** The end of the recovery period.

**Mr Prichard:** Once we are at the end of the four-year period, our expectation is that the government would return to the basic commitment, which is to take the advice of the OCUA on the amount required the following year to simply maintain current levels of programs in real terms. That is what the OCUA's advice is.

I might say that the \$410-million calculation is not our calculation. That is not a number invented by the universities. That is a number simply taken from the OCUA's own advice since 1977, as its advice has not been followed.

**Mrs Sullivan:** I understand that. The question of capital has been raised by student groups that have been before us and you do not include a discussion of capital in your request. Do you see, once again, new demands in capital over that four-year period of time which you call the recovery period?

**Mr Prichard:** That is an important question for us and I want to give only a tentative answer because we have only just begun discussions as to how to finance the capital side. One of the difficulties of overcrowding for our students has been a lack of capital. It is our sense that the new government is committed to a program of capital expansion which would include contemplating financing it on a different basis, that at this time, with the need for expansion, we should be considering other instruments for financing it rather than just annual grants, and that we should be considering debt instruments as part of that.

We thought it was premature to put a capital plan forward at this time because it seemed to us that it was in the government's interest to have a discussion which we did not wish to pre-empt by getting out in front with respect to universities when the hospitals and the school boards and others were there. This submission does not address the



capital question because we thought it was premature to make such a request at this time.

**Mr Sutherland:** I want to say I was very impressed by the presentation and it is certainly a very impassioned plea for the plight of the universities. I, too, want to get into the nitty-gritty of this proposal because I have some concerns.

As someone who has put himself through university on OSAP and self-financing, when I look at what you are proposing here, a \$550-a-year increase in tuition for four years, that is basically—I work it out in the first year at least—a 33% increase in tuition, and on the overall increase you say that the average cost is \$7,000 right now, probably over \$2,000 extra, so you are looking at almost a 33% increase in the cost of going to university as a whole. That is not taking into account that the other costs outside of tuition are going to increase.

I was very familiar with the Queen's University blueprint proposal that came out last year. At least in that proposal they termed that a set amount of the money should be put aside for student grants. I see nowhere in this proposal where you are saying a certain amount should be put aside. Unless a certain amount is put aside, I do not see how you are going to deal with this question of access, because if you increase at \$550 this year, a 33% increase, for someone from a lower socioeconomic scale who has already been planning to go, how is he or she going to adapt to a 33% increase in one year or within two to three years?

**Mr Prichard:** That is an excellent question. Perhaps I could just address two aspects of it. First, not wishing to avoid the thrust of your question, I believe, as I have heard it, you have misstated our proposal. The proposed increase is \$550, but only once. It is an immediate \$550 increase; not repeated. It ramps up once by \$550 and is not repeated.

**Mr Sutherland:** I am reading from page 2 where it says "\$550 per year."

**Mr Prichard:** Once it goes up by \$550, it stays at that new level, but it does not go up again, so it is a one-time increase.

**Mr Sutherland:** So basically, this is the Queen's blueprint, except that you are doing it all in one year.

**Mr Prichard:** We are doing it all in one year instead of spread out over four or five years. But the number is very similar, in this case \$550 instead of the \$625 proposed at Queen's, so it is a one-time; it is just a correction. As a percentage of the cost of going to university, it is \$550 as a percentage of \$7,000, so it is about an 8% increase in the cost of going to university, about \$3 or \$4 a day for a student in class days at university.

On the question of accessibility, the reason we did not put a number is that our position is that the first claim on all the money is to ensure current levels of accessibility. If it costs 20 cents on the dollar, it is 20; if it costs 30 cents, it is 30; if it costs 40 cents, it is 40. We did not want to pre-empt that discussion of the reform of OSAP for both part-time and full-time students and we say the first claim, before a cent goes into quality, is to maintain accessibility.

The reason we did not reserve \$20 million or \$50 million was that we got estimates from MCU, estimates from OCUA, back-of-the-envelope estimates from other people as to how much was required. Somewhere between 20, 30 cents on the dollar of the tuition fee increase are historic estimates. Our view was it should simply lay prior claim before anything is spent on improved quality so our position is whatever is required is the amount, not some predetermined amount.

That said, I think the shortcoming of this draft of proposal is that it does not address sufficiently explicitly the shortcomings of OSAP as presently constructed, particularly for part-time students, and our next draft, when it comes out, will much more explicitly address those shortcomings and try to quantify the costs of them. I think the weakness of the document is the explicitness on that, not a weakness of intention though. The intention is complete commitment to maintain the accessibility before money is spent on anything else.

**Mr Sutherland:** Your university just raised \$125 million from a combination of private sector and long-term commitment, I take it, from government.

**Mr Prichard:** No government funds.

**Mr Sutherland:** No government funds, all private. Okay, \$125 million, that amount of money you raised, that not going to improve the quality at the university?

**Mr Prichard:** Absolutely, it will improve the quality. Let me just speak to that. That program announced last year and a half years ago was to raise the most money raised for any Canadian public institution, hospital or university. It was a five-year program for \$100 million. I said this boastfully, because I had nothing to do with it, so I will excuse the immodesty. My colleagues, my predecessor and the volunteers who led that campaign, in half the time, in two and a half years, raised \$125 million of private funds.

They did that, though, for capital purposes, which is why, when I had the question earlier from Mrs Sullivan, I held back on that because I think a combination of private support and public support for capital is the appropriate direction to go. But that support is not the support we need for the operating costs of providing a first-class education for the class size problem we face, for the destruction of the native studies program and the language program and the other programs. That fund-raising is to pay for the costs of the buildings, for the costs of the basic infrastructure within which we have to operate our programs. So it is an enormous contribution, an enormous vote of confidence, in my view, in the importance of quality education, but it is not responsive to the difficulty that we have before you.

**Mrs Cunningham:** Professor Prichard, Dr Kittler and others, it is a pleasure to meet you. I have been waiting to do this for some time. As the critic for the Progressive Conservative Party, I have rather made it my business to become as well informed as I can. It was interesting to hear Mr Sutherland's questions, as he was the president of the University of Western Ontario student council and I was his representative, regardless of my party. We have



monious debate. It is always nice to see him informed public. I tried to do it often, but it is coming along very well.

**Mr Prichard:** Dr Pedersen speaks highly of him.

**Mrs Cunningham:** Yes, we are all very careful now, we do want him speaking for what we all believe in. You are doing a good job today. Having said that, we will continue to have our arguments, but I must say we have agreed from the very beginning on this issue of the enormous underfunding of universities. If you will forgive me, my questions may seem negative, but they are not. I am very much a supporter, have been for many years and I believe in the quality of all education.

But I will tell you what I have heard as I have been doing my digging around with regard to what kind of support, by the way, the government will get from its own administration—because that is all part of the political process and if we cannot in fact impact upon the bureaucrats in many departments of government and if we cannot get the support of this particular committee with regard to votes in the House, not only the cabinet, we are going nowhere. Although you have made an impassioned plea today, there are some things I have heard as I try to get myself well educated that do not make me very happy.

One is the same old argument—and I heard it yesterday from one of your own colleagues who teaches at your own university, as a matter of fact—that the universities are not underfunded; they are just not well managed. I would like you to speak to that. The other one is that Ontario has to decide what it really wants from colleges, universities and the secondary schools. Who should be doing what? Quite frankly, our great concern is that there are no standards. You can read what I said to your former colleagues earlier today.

So not well managed and no standards, and the third one is the total misunderstanding around how public funds are made. I can tell you, at Western, if we had asked for any money in our private fund-raising for the ongoing operational costs of universities, we would not have got one penny. They are going to pay for what they consider the capital, even for equipment I must say, but there is not one penny for that.

If there is not some match from this government, we will not be getting any more of that down the road because you can have all the buildings you want, but if you have not got the professors and if you have 300 kids in a classroom, which Mr Sutherland very much relates to, people will not even want to contribute to their own universities when they are graduating. Those are from the students.

If you would speak to those—not underfunded but not well managed, and that we have to decide on standards before we can give the universities any money, which makes me absolutely sick—if you can in fact speak to those, I think we would very much appreciate it.

**Mr Prichard:** Thank you. I will try to do so briefly, because the Chairman is looking firmly at me. We greatly appreciate—

**Mrs Cunningham:** I do not look at the Chairman.

**Mr Prichard:** He is looking at me, though.

**Mrs Cunningham:** I know how he looks.

**The Vice-Chair:** This is very important. We have another group that is coming in for 11:30, not tonight.

**Mrs Cunningham:** I think it is important for the government to hear what the president is saying here.

**Mr Prichard:** I will try to do it very briefly, and I am very grateful for the interest you have shown in the problems of the universities at present.

Are we well managed? I am new to management at the university. My own impression would be that there is an exceptional effort being made to live with grossly inadequate resources, that the effort being put out by my colleagues, particularly my administrative colleagues on the staff of the university, is really exceptional.

Can we do better? I do not doubt for a minute that we can do better and that we must do better and we will do better. I think every institution is obliged to do that. Certainly every public institution is obliged to do that to maintain the trust and meet its standards of accountability.

Is there room for improvement? Yes. As I said to my colleagues at the academic board of the university just last week, discussing the taking out of 150 professors from our professoriate—and I think the weights are about right—that 5% of it is probably the lack of imagination of our deans and principals and chairs and directors and others charged with the administration of the university, lack of imagination and shortcomings in their effort, and that 95% of our problem at present is simply, by every standard, grossly inadequate resources. I accept the obligation that we must strive constantly to perform and manage as well as can. My own judgement would be that effort is being made and we will continue to make it.

On the question of standards, I do not understand even the claim. My own view is this whole debate is about quality and it is that universities beg for help to allow us to set standards and meet standards that the public and the students reasonably expect us to meet. That is the problem of standards. It is not a problem of aspiration in the university. Professor Kitler speaks to our aspirations of standards for employment equity in the faculty of the university. There is no debate about that. We just cannot meet the standards.

Our problem is a complete incapacity to meet reasonable standards imposed by ourselves, by the public, by our students and standards being imposed on Ontario internationally which we are falling further and further behind. That is the problem of standards in Ontario's universities. We cannot meet our own standards, which themselves are not dreamlike, are just reasonable aspirations for the quality of education we should provide.

On the question of private funds, my own view is that the solution—and this is not the COU's position yet because we want to have a dialogue with the government, as I indicated—will lie in matching funds through incentives, working where the private sector and the government work together, through the kinds of programs you are referring to, where we consider the use of debt as well as direct operating grants to do it. In a combination of private and

public funds with incentives and with debt, we can probably handle the capital side of the university.

In my view, the number one problem facing Ontario's universities, which is most damaging to the quality, is the operating grant, and that is why that is the sole point of this brief and that is why the Ontario universities are unanimous in putting the brief before you. I am very grateful for your indulgence.

**Mr Phillips:** I cannot quite understand the numbers yet. I need a little bit of help on that. My understanding is that the grants have been going up by 7%, 8% or 9% a year and that there is the need to increase the grants just to keep where we are.

**Mr Prichard:** Yes.

**Mr Phillips:** I would just like to get your feeling on what that is per year. I cannot quite understand the \$410 million yet. If you wanted to get to the level right now, not that you think you would like to be at this \$410 million, how much incremental grants each year do you need?

I am trying to get some idea of when we know whether we are hitting the target or not, because right now my impression is that whatever grants you have been getting in the last five years, which have been going up at \$100 million a year, have done nothing but put you further behind. We are going to have to provide more than \$100 million a year just to keep you where you are now, then I do not know whatever the incremental number is, so if you could scope out for us.

The second one has to do with the other part of it, that is, that you are, as I read this, asking the students to pick up relatively a disproportionate share of what they are picking up now. It seems to me that makes it politically more difficult. Did you consider some other alternatives?

I would like to get those two things.

**Mr Prichard:** In terms of understanding the past, the key thing that has happened in Ontario in the past five years has been a massive increase in enrolment in universities, not just of young people but of all age groups. So in reading the grants and understanding why Ontario would still be ninth out of 10 in Canada, you have to take account of this massive enrolment increase. A vast majority of the funds given to the university in the past five years have been for meeting that increased enrolment as opposed to dealing with the base of the existing enrolment.

Our proposal is that the government in each of the next four years take the advice of the Ontario Council of University Affairs, not our own, and I want to stress that is not the universities' council, that is the government's council, which calculates annually how much is required today to do the same job we did last year. We say the government should accept that advice, of course. That is just a starting point. But if all we did was accept that advice, we would stay where we are in Ontario. We would not recover.

**Mr Phillips:** I understand that.

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**Mr Prichard:** So the proposal we put is that the government accept that advice, whatever it is, and in addition, over four years, embark on the recovery. The recovery would cost an increase in base of \$70 million from the

government and about \$30 million from increased student fees in each of the next four years. The cumulative effect just under \$280 million in increased government support above what would otherwise be granted on the advice of the OCUA. That is the number. It would be a \$267-million, I believe, or \$273-million increase over the four-year period put into the recovery plan, increasing the base of what is required to just stand still.

**Mr Phillips:** Just to state what I then understand whatever the advice of that group is, and it will be more than the previous government provided, it will be 10% something like that.

**Mr Prichard:** Not necessarily, because the enrolment is now flattening. The government is committed to a flat enrolment. It is the cost of living as interpreted in the university context, in which some things go up fast and some go slower, so they calculate, in effect they index to inflation in the university.

**Mr Phillips:** So maybe \$100 million or something like that.

**Mr Prichard:** Whatever the number is.

**Mr Phillips:** Then in today's terms it is \$70 million \$73 million?

**Mr Prichard:** It is \$70 million a year.

**Mr Phillips:** But that is in today's terms. Next year would be that plus.

**Mr Prichard:** In real terms, yes.

**Mr Phillips:** At the end of the four years, you build into the base today's equivalent of the 110?

**Mr Prichard:** Of the 280.

**Mr DesRosier:** Of the 410.

**Mr Prichard:** No, I am sorry. Let me just give one set of answers. In terms of the government amount, the 280, 70, 70, 70, 70—goes into the base at the end of the four years, and the student amount—30, 30, 30, 30—120 is still available in tuition. You get 120 and 280, which is the 400.

**Mr Phillips:** So you build that into the annual base?

**Mr Prichard:** Yes. The student fee continues at the same level and that \$280 million goes into the base at the end of the four years: 280 and 120 add up to 400.

**Mrs Sullivan:** But are you asking for it in perpetuity? I guess that is what he means.

**Mr Prichard:** Yes. It is a new base level so that at the end of that time the average support for students in Ontario would be at and then largely above the national average support per student, which is in the base across all the other provinces. The comparison we are using is simply what is happening in the other provinces of Canada. If it is taken back out, then we would just drop back to the base level again.

**The Vice-Chair:** Thank you.

**Mr Prichard:** I did not answer the second question.

**Mr Phillips:** I need some help on that.

**Mr Prichard:** Could I ask Mr DesRosier to meet with you and provide you with the analysis?



On the second question, we have considered every alternative we know on how to finance this, because there is debate among all the groups that appear on the need for money. We do not know of a better proposal than this. This committee can persuade the Treasurer of a better proposal, we are fully in favour of it.

Our first preference is it be exclusively public funds. The advice we get from the government, from the opposition parties, from the public is, "That is not doable in 1991," and the question always put to me is: "Why won't you help yourselves? Why won't the institutions help themselves by raising tuition?"

What I come to you saying is, the 16 universities of Ontario have said we will, with pleasure, in a sense of with assurance in getting on with the job and with regret that our students have to pay it, if you give us the opportunity to do it. At present, if we increase tuition by a dollar, our grant goes down by a dollar. If we are given the space to do this, we will do it.

My governing council of the University of Toronto, students, faculty, alumni and government appointees, met on this on 20 December and they unanimously—every student, every faculty member, every alumnus, every government appointee—approved this plan on 20 December to raise tuition by \$550 for all constituencies in our university, as evidence of their commitment to doing it.

**The Vice-Chair:** Thank you.

**Mr Prichard:** Thank you, Mr Chairman. You were terrific.

#### CONFERENCE BOARD OF CANADA

**The Vice-Chair:** Mr Darby, I apologize for our lateness. I think you looked quite interested in the debate here. You might know that we have already talked to the Toronto-Dominion Bank and the Royal Bank, and we look forward to your views on the current state of the economy and your projections for the next one or two years.

**Mr Frank:** I am Jim Frank and my colleague is Paul Darby. We are pleased to have the opportunity to speak with you today, and on behalf of our president Jim Ninnes of the Conference Board of Canada, we always welcome these times before various parliamentary committees.

The conference board, you may know, is a leading forecaster in Canada. We do quarterly forecasts for all of our members and one of the members of the conference board is the Ontario government.

I am going to make some opening comments about the Canadian scene and particularly focus a bit on how we see the policy environment as it will affect the near term, and then Paul will run over the details of the Ontario outlook for you. What we have presented to you in handouts are executive summaries of our latest forecasts. There are lots of numbers in there for your edification, and we can answer any questions you may have.

Before I do that, I want to tell you just a few things about the conference board. We are a private sector, not-for-profit organization. We are funded by business, government, labour unions, associations and so on. Our mission is to be the leading private sector research organi-

zation in Canada and our basic goal is to enhance the competitiveness of Canadian organizations in a global economy. That is what we are really about.

In all of our actions, we have a number of guiding principles, and the most important one for our purposes today is to say that we are an objective organization, we are independent and we are non-policy-prescriptive in all of our work. In other words, we try to analyse major economic events and carry out our forecasts in as objective and independent a fashion as is possible.

As a result of this, in our presentation today we are not going to be lobbying for any particular point of view in terms of stimulus or contraction or tax policy or otherwise. What we are going to do is try to give you the best judgement we can on the near-term outlook and hope only that it will be of some value to you as you go ahead in preparing your budget in the next few months.

Just briefly speaking, the conference board, if you like, called the first made-in-Canada recession in quite some time last fall, and as you may know, got a fair bit of publicity on it. We see the recession ending in the second quarter of this year, and that will make four quarters of negative growth. We expect growth of around nine tenths of a per cent last year declining by about three tenths of a per cent this year, with a strong rebound—well, I should not say "strong," but a more anaemic type of rebound to 3.6% growth next year.

It is a slow recovery and it is a gradual recovery, and Paul will focus on that in the context of Ontario. Unemployment is going to average 9%-9.5% this year and inflation around 6%. We think the US economy is going into recession, has been in recession in the fourth quarter and will come out of it in the second quarter along with Canada.

We think the anti-inflation policy of the government of Canada and the Bank of Canada will remain in place. Even though we see interest rates coming down, our view is that this is not a substantive, if you like, relaxation of monetary policy. It is not fundamentally changed. They are still very worried about inflation, and the wage settlements that have been coming in over the last while, particularly in the public sector, are a centrepiece of that concern.

We are forecasting oil prices to average about US\$25 a barrel this year. That is high compared to what it is right now, but I am going to talk to that in a moment.

We see fiscal policy very neutral at the federal level. Our judgement call at this point is that there will be no stimulus in the federal budget nor will there be any spending cuts. It is going to be a steady-as-you-go type of budget essentially. Stimulation at this point would be procyclical, and I do not think they are into that game.

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Second, there is not a lot of money to spend. They have a deficit that is, as you know, hitting \$30 billion now; it will probably be \$3 billion or \$4 billion higher than that this coming year. Additional tax increases, after what has gone on with the GST, I do not think are in the political cards, but that is within the framework that we are forecasting now, that assumption about the federal policy.



Just a word or two about monetary policy. The bank has been worried, as you know, about inflation. The GST has contributed, in the conference board's view, about one and a half percentage points to inflation this year. Add about another half a per cent from oil and you have two percentage points in additional inflation coming this year from just those two events alone.

The fundamental issue is, do wages respond to that and, if you like, catch up or exceed? You are familiar with what has been going on in the public sector. I do not need to mention that.

Our forecast for inflation this year is 5.8%. Next year it drops to 3.8%. The important point here is that we are still explicitly assuming that there will be very little wage response or catch-up, if you like, to offset this increased inflation. Now, there are exceptions, as you all know, to that.

The reason the inflation rate is not higher in 1991 is the extremely weak economy that we have here on our hands now. The oil price increase that just occurred in the fall took about half a per cent off growth in 1991 for Canada. Weaker oil prices will help to support growth, but as I said, we are not expecting a substantive change opposite that \$25. If it averaged, say, \$20 or \$21, you will get a little bit of help on inflation, a little bit of help on growth, but it is not going to rocket us up out of the doldrums.

Interest rates: We are expecting a drop of about another half a per cent or so between now and next year at this time. Our current outlook has interest rates dropping pretty sharply and we are narrowing the spreads between Canadian and US interest rates very explicitly.

Quite frankly, without that kind of cut in interest rates, we would not see the Canadian economy come out of the recession in the second quarter. So we have made a very explicit assumption about reductions in rates and reductions in spreads. So the Canadian dollar moves down gradually over the period and trades around 84 cents by year end. That is compared to about 86 and change now.

Let me talk just briefly about confidence in the economy. We do two surveys at the conference board, one on consumer confidence and one on business confidence. I am going to give you the fourth-quarter results, which were done in November and December and are just being sent out to our members now.

First of all, in terms of consumer confidence, we had a sharp drop in the first part of this year, but the measure of confidence has remained stable for the past three quarters and the index sits at about 75, which is roughly where Ontario is. If you were to go back to the recession of 1982, that confidence measure dropped into the low 50s, so I suppose there are two ways of interpreting it. One is it could go a lot lower, and has historically. We are not seeing that. Second, it is encouraging that it did not fall in the fourth quarter last year after this recession scenario became at least generally accepted within political circles.

Consumers are very nervous. They are very nervous here in Ontario and that is true pretty well across the country, with no exceptions.

Business confidence, on the other hand, is mirroring what is happening with consumers. Businesses are ex-

tremely nervous. We had in the past several quarters record low responses to businessmen being asked whether they thought near-term business conditions would improve. We have never seen responses in the affirmative as low as 2% or 4%. Businesses in Canada are very nervous.

The other side, or the good news, is that confidence measure did not drop in the fourth quarter either in a substantive way. So what it looks to us like is that people at least are perceiving that the bottom has been reached. They are not getting a lot more pessimistic than they were in the fall.

All of that means that business investment is going to turn in a very weak performance. We know from our history on this that when confidence drops as it has among businesses, business investment drops, so we do not expect any growth and in fact we expect a decline of about 7% overall business investment in Canada this year.

Let me just conclude with a couple of comments on the length of this recession and then turn to my colleague Paul, on Ontario.

When we said that the recession we are in now is a made-in-Canada recession, we made that point because of the interest rate policy that has been pursued for the better part of a year and a half in Canada. We have spreads that are up almost, well, actually for a few weeks, over six percentage points in the spring. If I had come before you and said that we would have interest rate spreads over five percentage points from mid-February to mid-November in this country, you would have said I was crazy, it will not happen. Yet it happened from February through November. The result of that was a killing off of the auto industry, housing starts sharply dropping, and of course the Canadian dollar rising to what we think are unsustainable levels.

Now, when I go back to the main point about interest rate spreads being narrowed, it is because that is how you get stimulus within the economy; you stimulate exports and you retard imports when you narrow the spread because the currency will come down, in our view.

Why will this recession be four quarters and no longer? We get asked that all the time by people in the media and by business audiences and the general public when we are speaking at public events. There are three or four things that are important, and I think they continue to be reasonably valid as explanations. The first is that there was a severe inventory overhang in 1981-82. Inventories were very high at that time. That is not the case now. Businesses have learned to manage inventories much more carefully, and so we do not see that having to be worked off for any great length of time. The second thing in 1982, most Organization for Economic Co-operation and Development countries went into recession about the same time and they stayed down for a fairly lengthy period.

We expect Japan and Germany to turn in reasonably decent growth this year and next year. Of course, the U.S. will have a fairly modest year, along with ourselves. So most OECD countries went into recession last time; that is not the case now.

There are another couple of issues here that have to do with the downsizing that occurred in 1982. I think you all



familiar with the fact that many companies did not attain the levels of employment that they had prior to 1981. That simply means they are a lot more efficient. So there was less delay, if you like, in cutting back and balancing the books during this downturn compared to the earlier one. The other point does not affect Ontario so much, but we had back in 1982 the national energy problem, which chased a lot of investment out of the west. In conclusion then, what we are talking about here is a three-quarter recession, milder, less deep than in 1982, which was six quarters and where some quarters actually had declines in growth of over 1%. We are talking now about a decline in 1991 of about 0.3% or, say, half a point in growth, compared to 3.2% in 1982. There is a quantitative and qualitative difference of substantive proportions. The recovery will occur, we think, starting in the second quarter, but it will be a gradual and a fairly slow type of recovery.

Paul, can you deal with Ontario, please?

**Mr Darby:** Thank you, Jim. I guess, as we are all here at this point, the Ontario economy is clearly deep in recession. The manufacturing sector has been especially hard hit. The housing sector as well has been suffering badly. I guess if you look at the leading indicators that are currently available to economists, there are actually very few current signs of hope on the horizon. However, we continue to believe that in fact there will be a fairly rapid recovery, in Ontario at least, which should begin to get under way with, I would say, full steam by the third quarter of this year. We should see some positive numbers, at least but positive, in the second quarter and some pretty good growth at about 4% at annual rates, which should start in the summer and head on right through 1992.

This recovery, in addition to some of the factors that I have discussed nationally, will be I think particularly triggered in Ontario by the sharp declines in interest rates which are already well under way. It should help to stimulate the housing markets, investment, lower savings rates, stimulate consumption, restore confidence. As well, the recovering United States economy should definitely help Ontario's exports, particularly again with respect to manufacturing, but also with respect to some of the mine products and more primary products like forestry that are produced in Ontario. Hence, I guess we still feel that there is indeed some good reason for hope as we look out into the future.

Given the restrictions on time, I am going to just very briefly touch on some of the key elements of this forecast. I hope that will leave us some time for questions after. To begin with the demographics in Ontario, there are some interesting numbers here. They have in fact turned out sharply against the Ontario economy. If you look back when the economy was, if you like, in boom times, in 1986, you had a net inflow from other provinces into this province of 44,000 people, in addition to some fairly solid international numbers as well. We are now looking at a forecast for 1991 of actually a net outflow of 10,000 people. We heard the expression earlier in terms of voting with their feet. People who live in Ontario now are voting with their feet to the extent they are deciding things look some-

how better in British Columbia or Alberta. The situation has, in other words, got bad enough in Ontario that people are deciding to leave.

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However, that is a phenomenon that you see in fact through most recessions as they hit Ontario. In every previous cycle that has always reversed itself, and as the situation improves, in fact, you begin to get a return to net inflow into the province. This helps to give some momentum and, if you like, accelerate the recovery process. As we look towards 1992 we see a net inflow of about 4,000 people into the province, just on a net interprovincial basis.

As well, as I think we are all aware, 1990 was just about a record year in terms of immigration from abroad. We had 192,000 people, thereabouts, come to Canada from other countries, and we are seeing that in fact maintaining itself throughout all the medium term. Ontario will get its good share of those international migrants, and this in itself should also add some solid support to growth in the Ontario economy, particularly as you look out through the medium term, but as well starting in 1992.

The export sector in Ontario has been suffering, particularly with the weakness of growth that we have seen in the US economy. The US economy has been performing very sluggishly through most of 1990, and we are now forecasting it to go into a recession starting in the last quarter of 1990 and on into the first quarter of this year. That, of course, has some pretty solid impacts on the Ontario manufacturing sector and will hurt Ontario's exports; has already done so in fact.

What I find interesting, however, is that if you look at the numbers with respect to the auto sector, and especially with new vehicles, they are not nearly as bad as one might expect from just previous cyclical episodes. The reason why this is the case, in fact, is that we are looking at a transplant phenomenon which has taken place in Ontario. You are all aware, of course, of the new Camry plant at Ingersoll, the Toyota plant was getting up to speed at Cambridge, and they themselves have had an enormous amount of new vehicles in terms of assembly in Ontario. The Ingersoll plant in 1989 produced 660 units; in 1990 it produced 46,606. The Toyota plant, which was still just coming up to speed last year, went from about 21,000 units in 1989 to 61,000 units in 1990. That is a tripling at a time when the US economy was sluggish and going into recession and all the rest of it, so that obviously adds great support to at least the assembly of automobiles in Ontario. Honda had a great year as well, 21% growth. Obviously, the more traditional Big Three did not do nearly as well, and if you include truck assembly, they had a decline of about 5.4% last year.

Clearly, the strategy to bring on some of the, if you like, transplants—I think that is the term—has worked in a sense of helping to insulate the Ontario economy from the downturn that we have seen in the demand for autos in the United States overall. I think there are some issues there, however, with respect to parts manufacture. The transplants in general tend not to have so many of their parts manufactured locally, and it is generally accepted there is more value added, more skill, if you like, in manufacturing



parts than in simply assembly. I think this is an issue you might want to keep in the back of your minds as you think about moving into the future with continued transplant activity in Ontario.

Even if the auto sector has not been hurt that badly by the weak growth that we have seen in the United States, certainly other sectors of exports have been hurt and will continue to be hurt, I think, through the first half of this coming year. Paper and allied industries will have declines both last year and next; chemicals will be well down this year; machine and equipment exports are well down. Overall, the other sectors of exports in Ontario have been weak enough, I think, to drag down the overall economic performance in the province. But with the recovery in the United States and with some of the slight depreciation in the Canadian dollar that we are looking at, we do see in fact a good year for Ontario's exports, starting in the summer late this year and a very substantial amount of growth next year, so I think the future is in some sense not bleak from that perspective. In many ways I guess it is our opinion the worst is beginning to be behind us.

Just a few words about the manufacturing sector through this cycle. It has been hit very severely in Ontario, I would say probably more severely than we might have expected, looking at the overall depth of the cycle. If I can just give you some numbers with respect to employment, for example, from the second quarter of 1989, which was the last peak in employment in manufacturing in Ontario, through the fourth quarter of 1990, which is the last quarter for which we have data, Ontario lost 112,000 jobs, just looking at the quarterly numbers in manufacturing. That is about an 11% decline in employment in the manufacturing sector in Ontario. If we look back at the previous recession, 1981-82, which was, as we all know, a very traumatic experience, we are now looking at that recession being about three times as severe as our current downturn. To date, that is the pattern that has emerged. The decline in employment in manufacturing in Ontario was 13.5%, so the declines that we have gone through in employment and manufacturing in Ontario so far in this cycle are of the same order of magnitude as that last experience we had. Hence, I think it underlines the point that manufacturing in Ontario has certainly taken it very hard.

Other sectors: The service sector definitely has not and has maintained some weak, fairly anaemic growth for much of 1990. It is possible that there may be to some extent a formal structural change going on in the manufacturing sector in Ontario. I am not sure many would argue, but I think there are issues with respect to how many of those jobs might come back once the recovery is under way, how many will be permanently lost because of substitution of capital for labour and what that means for job retraining and issues in the employment market in Ontario as we move through 1992.

The housing sector in 1990 was in fact a terrible year for Ontario. Very high interest rates drove the housing sector down, but I think it is also understood that in Ontario there had been some excess supply of houses already on the market. There had been some speculation house prices had been driven up very high. Affordability was an issue.

When the downturn began in that market, I think it was clear it was going to come down very hard. That is indeed what has happened.

In fact, we are looking at further declines through the early part of this year, but we are seeing quite a strong recovery ourselves in housing in Ontario beginning in about the third quarter, through the summer. This is partly because we believe that the low interest rates will clearly trigger a rebirth in activity. We also feel there is some fairly strong underlying fundamental demand, partly because of this continued flow in international migrants who we see coming to Ontario who will need to be housed. This will certainly put some pressure on the market.

Overall, we see business investment in Ontario as lagging the cycle. We do not see any strong activity in that sector until 1992. We have noticed some severe weakness in machinery and equipment investment, which causes some worry, if you like, because of the feeling that, given the free trade agreement and other issues, at least in Canada there would be a drive towards modernization, always with the worry of global competitiveness—these are the watchwords—in the back of the minds of businessmen. The collapse that we have seen in machine equipment investments so far this year from that perspective is worrisome, but we feel that in 1991 there will be some stimulus from the introduction of the GST, which does in fact encourage machine equipment investment particularly. We are looking for some good recovery in Ontario next year in 1992. We do not believe the underlying imperatives to remain globally competitive are going to disappear.

What this translates to, just briefly, in terms of employment growth is a decline of employment in Ontario in both 1990 and 1991. We are looking at a solid 1% decline in employment in Ontario this year. We do not feel that employment growth will begin to pick up until, in fact, early 1992 in any substantial way. Employment always tends to lag the cycle. Entrepreneurs tend to want to be sure that this recovery is for real before they take on full-time staff. Hence we do not see full pickup and recovery until next year, but then we are looking at fairly decent, say, roughly 2.5% growth. As a result the unemployment rate stays at fairly high levels throughout 1991 and 1992, at close to 8% in Ontario, and does not really start beginning to come down until 1993.

The overall bottom line, if you like, is that we are looking at real gross domestic product at factor cost declining in 1990 by about 0.5% and this year by another 0.1% before increasing by a solid 4% in 1992.

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**Mr Christopherson:** Thank you, gentlemen, for your presentation. It was very informative and very interesting.

Most economists and most people in general accept the fact that the \$2.5-billion deficit for fiscal 1990-91 was at an acceptable level, if you will, not necessarily preferable but acceptable, given the situation. There has already been a clear admission by the Treasurer that the deficit is going to be significantly higher than that. No dollar figure has been given publicly.



I would like to ask your opinion on what different dollar figures might mean to the economy as you would see it. For instance, \$5 billion or \$10 billion or a \$15 billion: At what point do you feel certain reactions to seeing a number like that, if that were the case? Second, in terms of the assumptions that have been made, most of them have been made on the American economy: that it is not going to get much worse than it is, that their recession is predictable. Oil prices at this point still do not seem to be expected to be going dramatically one way or another. There is going to be a decrease in the interest rates and some lowering of the Canadian dollar.

I would like to ask you, of those key signs, which of them do you think is the most fragile and could do the most damage if it did not go as expected?

**Mr Frank:** I am sorry. I heard the oil question. What are the other of the signs that you mentioned?

**Mr Christopherson:** The interest rates and the Canadian dollar value. The reason I asked that, to put it in context, is that I was meeting with a group of Canadian manufacturers' Association members in my own community. I asked them, if interest rates dropped but the economy was still perceived to be fairly weak, how would you react to that? Would you still go ahead and make moves? Surprisingly, the answer was that this would still give them a fairly good comfort level, that they would still probably go ahead and make a few moves that they are not making right now. So I am curious to see which of the other signs, if you will, might change most dramatically and would alter your opinion.

**Mr Frank:** All right. Let me come to the last question. I will come back to the deficit.

On the oil issue there are a couple of basic things which you have to keep in mind, regardless of what you read in the papers. The world is awash with oil. There is no shortage of oil in the world. That is a fact. The tide of opinion, if you like, seems to move so quickly with the oil market. If you have the price drop by a few dollars, all of a sudden that is the forecast for the next few years. The numbers that we tend to think make sense, in terms of a price that could be maintained over a decent period of time, are somewhere between US\$18 and US\$22 in today's terms. That is sort of sustainable. When you start to move up to US\$30 or to US\$40, we would say that this is not going to be sustainable.

What happens to really throw a wrench into the works? You would have to have, probably, a major disaster in the Gulf war right now that would take out a significant amount of Saudi supply. That of course would immediately hit the markets and you would see the spot price jump up. We could then be pushing into the US\$30s to US\$40s. We did an alternative scenario in the forecast on that because we had so many people asking that question, "What happens if?"

First of all, we said that with a short war—which is anything, say, under three months—there is absolutely no economic effect that you can measure. Now I do not want to come across as suggesting that there is no impact

of this war, that is not the message, but this is in terms of GDP, employment, deficits and all of that.

If you ask about the other scenario and, say, let's suppose this war goes for six to nine months—this is now talking about fighting—we would assume under that scenario that you have destruction of capacity in Saudi Arabia. Either there are Scuds or sabotage or direct attacks that take out refineries. That makes it difficult to get tankers out of the ports and so on. Then you see oil prices rising. In that scenario we put oil prices up to US\$40 and bring them back down to US\$30 within this year or within a year after that period. All that does is extend our recession about one quarter. So that is the range that we would say you have to look for.

In terms of interest rates, our sense on that is that the Canadian government has exercised quite deliberately the power of managing the money supply to drive rates as high as it has and to keep the spread as wide as it has. That suggests to us the corollary that there is policy room to reduce the rates. The price that will be paid for that, though—this is why economists are always teased about having two hands because everything does have a cost and a benefit, two sides to every issue—is that the currency will come down.

Our best bet for you would be that a currency somewhere around 80 cents is probably sustainable with a normal spread, which would be something like two and a half percentage points, say, between US and Canadian Treasury bill rates on the short end. Now the markets tend to overshoot, going both ways. You get a lot of volatility. If we were to see the currency spread being narrowed sharply, then I think you would see instability in the markets. They had a run with that a year ago in January and I do not think we will see that type of thing happening now. We are going to track down and narrow the spreads fairly gradually.

Now coming to the deficit issue, it is a very hard one to answer because we do not formally forecast deficits for the provinces. We forecast the expenditure side and the output side. We do not get into the fiscal situation in the provinces. Given the kind of outlook that Paul mentioned to you and the decline in growth that we expect to occur on an annual basis this year, you are probably looking at something that could be upwards of \$3.5 to \$4 billion. That would be something that would not surprise me if it were to occur.

**Mr Christopherson:** I am sorry. We are now talking about the 1991-92 fiscal year.

**Mr Frank:** Yes. Now there are a couple of things that of course drive this that I cannot comment on because you people have to make those decisions as government. There are issues of pay-setting in the public sector that are critical drivers. I am on a hospital board in Ottawa and we had to deal with a CUPE settlement that was much higher than we budgeted for. I believe we have just been notified by the ministry that we would be compensated for that. Now that, just in our one little hospital, is \$1.5 million a year, to give you some idea of the scope. We have province-wide the Ontario Nurses' Association coming up at the end of



March. You know what happened in Manitoba. What do you want to factor in on that one and then how far does that get spread?

Those are cost considerations that come into it, so when you ask yourself what the deficit looks like, you have to ask, "What is the likeliest scenario on that opposite tax increases and so on that you might put through?" But ending it up with all the dust settling, it could be upwards of, say, \$4 billion.

**Mr Christopherson:** I appreciate that. Specifically, I understand that the government is responsible for setting what the deficit will be based on its political decisions and you have said that very clearly and succinctly. I was looking more at what is the impact to analysts if you hit certain figures. For instance, what would \$3 billion or \$4 billion deficits say to an objective analyst? What would \$7 billion? What would \$10 billion? I am trying to get a sense of how you, as an independent analyst, would feel about those numbers, not knowing of course at this point where the number will actually be.

1250

**Mr Darby:** I guess there are a number of issues here. One would be if the government were to pursue a countercyclical policy and was trying to stimulate the economy while we were in a recession period, which is clearly an option. Generally, then, you get yourself involved in multiplier theory. For every \$1 government is spending, that we would put into the economy, how much could we expect to get back out in terms of real economic activity?

For a province like Ontario, that multiplier is probably on the order of somewhere between 1.2 and 1.5. So if you were to put in another \$1 of real spending, then you might get \$1.20 to \$1.50 back out in terms of real GDP. That is the very simple answer.

There are issues with respect to lags. If you start spending the money now, you may find that by the time it has an impact you are—already we are covering into the last half of 1991 and all you are doing is sort of fueling the recovery, as opposed to actually doing something about the recession. There is an issue there. Of course, there you have to have some faith in the timing of the recession. I certainly would not want you coming back to me and saying: "Hey, we've been in this for two years now. You told me we were going to get out in the summer." That is an issue. Timing has always been an issue.

Other issues have to do with the fact that there are supply-side constraints. At a certain point you start throwing money at the economy and all you are going to do is drive up prices. We know that we have gone down into a recession. We know that we have some excess capacity that now exists. We know there would be room for some increase in activity which would not put too much pressure on inflation, but at a certain point, putting more money in in general should only serve to increase inflation, and in no way to get more supply, more production out of the economy. There is certainly a constraint there. That is the short answer.

**The Vice-Chair:** We have Mr Phillips, Mr Jamison, Mr Sterling, Mrs Sullivan and Ms Ward to go yet, so decide on the question and the answer.

**Mr Phillips:** I really appreciate this. I think the three banks that we have heard from, two here and one we have read about, agree with you, that mid this calendar year will come out of the thing and I think we all feel better about that. I guess I have two or three questions.

There is no mention of the Quebec situation here. I realize you may be unable to comment on it and that is fine, but to me at least that is going to impact on the economy over the next two to three years, and whether you want to comment on that or not, that is fine.

The second thing is your projection for the Canadian dollar. You have the exchange rate here, but I am not smart enough to translate it back to the Canadian dollar. You predicted the exchange rate. What does that mean to the Canadian dollar?

The third thing is that you have indicated, I think, a significant reduction in manufacturing jobs over the last year or so. I would like your comment in terms of how important that is to our future. I had always had kind of a perception that this was a bit of an engine driving us, and whether the growth towards service jobs is absolutely inevitable and just let it happen or whether that needs to be something we need to be concerned about.

**Mr Frank:** On the Quebec issue we have made no explicit assumption about the constitutional issue, in the outline. The reason is, quite frankly, that it is an imponderable. That is the honest truth of it and anybody who tells you that he knows what is going to happen there is dreaming in Technicolor, I think, in simple terms.

**Mr Phillips:** You have factored in the imponderable?

**Mr Frank:** No, we have not. As I say, we have made no attempt to try to deal with that. What I would say to you is that in economic terms, no matter how it is actually accomplished, if in fact Quebec leaves Canada that is not going to be good news on an economic front. That is all I could tell you, that it is going to be a negative. It will not be a positive. How large a negative is an imponderable. But that is as far as I can go, honestly, in sort of giving you a sense of that.

On the exchange rate, if you just want to jot that down, what is presented in those tables is Canadian dollars per US dollar and basically all you do is invert it. So for 1990 the number would be 85.6 cents, for 1991 it is 84.7 cents and for 1992 it is 83.8 cents. The fourth quarter of 1991 is 84 cents and the fourth quarter in 1992 is 83.7 cents.

That might strike you as a small devaluation, and it is. The reason it is a small devaluation is that this concern about inflation is still very much present in Ottawa circles and I do not think that is going to change. Remember that for a 1% decline in the Canadian dollar opposite the US dollar, we get about a 0.3% increase in the consumer price index within, say, roughly a year. So the dollar comes down 1% and on an 86-cent dollar, 1% of that, you can figure it out, you are going to get 0.3% on the CPI. What they have gained by pumping the dollar up, they will lose



t devalues, so the currency will not fall much more than what we are saying here.

**Mr Darby:** With respect to the manufacturing issue, in, certainly there have been very substantial declines in employment. In fact, even if you go back to the previous 1-82 recession in Ontario, where I talked about the lines we saw at that time, the recovery in employment in Ontario was fairly anaemic. There was only one quarter at the end of the 1982 recession in which employment in Ontario in manufacturing actually got back to the previous peak in 1981. Since about 1987 employment in manufacturing in Ontario has pretty much gone nowhere.

**Mr Phillips:** In absolute jobs?

**Mr Darby:** In absolute jobs.

**Mr Phillips:** Percentage has declined.

**Mr Darby:** Percentage has declined. It has just pretty much been static. Now that is not to say that output in manufacturing has been static and clearly there has been, I would say, a fairly rapid structural shift here towards capital and away from labour within the context of the manufacturing sector in Canada. That is possibly, I think globally, talking place worldwide. We have seen an enormous amount of machine and equipment investment that has gone on in Ontario through 1985, 1986, 1987 and 1988, a lot of which will, of course, replace labour.

As to whether that is a good thing or a bad thing, I do not really think I can comment. I think in some sense it is going to depend on a lot of cost issues. I think that is something where perhaps employers in Ontario have not a lot of choice. If they want to remain globally competitive, perhaps that is the imperative, but again there would need to be a lot of case-by-case empirical work done on relative costs within industries to see how important that trend really is.

But I do think there is still an issue here in terms of what you do with the people who are being displaced from the manufacturing sector in terms of employment and turn-over to other jobs in other sectors of the Ontario economy. I think we can imagine that this process will continue to go on for at least some time after the recovery takes place in 1992, that the return in jobs in manufacturing probably will not equal the losses that we have seen, at least not for some time. Hence I think there is an issue there perhaps with respect to job retraining or labour force management that could be important.

**Mr Sterling:** Could I just ask a supplementary in that area before Mr Jamison goes, because it was dealing with manufacturing?

One of the tables that the Royal Bank has supplied us with in terms of graphs showed that in 1985, the end of 1985, the average hourly earnings in manufacturing were around \$12 in Canada; in the United States it was around \$13.50. Now in Canada we are up to \$14.50 and the United States has dropped in real terms to about \$12.50, so there is about a \$2 spread whereby our manufacturing workers are getting paid more than American.

They said also that 42% of that \$2 is attributable to the high dollar that we have, in terms of the high value of our dollar. Given that, is there any hope that we can regain

back in the manufacturing sector, as Mr Phillips has asked you? Is that a significant problem?

**I300**

**Mr Frank:** The swings that you get with devaluation on currencies when you translate from one currency to another will make quite a difference. If you are talking about going from, say, 86 cents to 80 cents, that six cents is 8%, so that makes quite a difference.

There is another thing that I should say complicates these numbers and that is that in the United States there has been a bigger move, quite a substantially bigger move, to at-risk compensation. So within the manufacturing sector, the pay of people over the last 8 to 10 years has become more at risk than has been the case in Canada. For example, you will have more profit-sharing, more incentive pay, in their pay structure. So the base of pay is not moving up as rapidly, but you cannot conclude from that that their total compensation has not changed, which is the important point. That is a very substantive research issue. Our compensation research centre has done a little bit of work on that, and I am not really plugged into it well enough, but those differences there would be a lot narrower if you were to account for that one shift in cost.

There is also this whole issue of benefit costs in the total compensation package where we have quite a significant advantage in this country. So again, you have to really look at the total cost of labour to get at this issue well.

**Mr Jamison:** We have had a number of reports from various people, the manufacturers' association, the banks, and there is a significant thing that is going on, and I do not think you have really latched on to it, concerning this recession, and that is that approximately 50% of the layoffs that we are experiencing in this province in manufacturing at this point in time are in fact permanent layoffs. They are not layoffs related directly to the down cycle. When we talk about a rebound in the second quarter, my question is, where will that rebound take place if in fact 50% of the jobs that we are experiencing layoffs in are permanent? In my mind there is a tremendous amount of restructuring going on in the mid-sized manufacturing area at this point in time. Basically, I tend to disagree with your feeling about a second-quarter recovery.

I guess the other part of that equation that you have not touched at all on is the trade picture as related to manufacturing, the ability to rebound, free trade, trilateral, Mexico, that kind of thing staring us in the face and what economic impact those situations can have further on our small and mid-sized manufacturing base. If in fact you are correct—and I tend to disagree with you; I think the recession is going to run longer and deeper than you are indicating—at that point in time when we are really coming out of it, what effect could the trade picture have at that point?

**Mr Frank:** Let me take a stab at a couple of these things and then, Paul, you can help me out here. To be candid with you, we are getting a lot of feedback from people who say we are too optimistic about our outlook, and I am quite prepared to accept that. Your forecast would be that it might be in the third quarter that we will see growth, and I would say to you that is fine.



Now, if you ask what the impact of the FTA is on this and how much of that job loss that we have seen since the beginning of this recession is permanent or not permanent, I know you can look at some of those closures and attribute them to the FTA. I do not think anybody would deny that. Whether it has been a major factor is of course an empirical question and it is almost impossible to analyse or try to get a good grip on. I have read Maude Barlow's book. I look at all that stuff at the back that is there and by implication all those plant closings and so on are due to FTA. It is demonstrably not true.

The other side of the coin is that reasonable people would say there has been an effect from free trade. I have to go back a bit in time here, because when the conference board did its analysis of the free trade agreement, we came up with the smallest economic effect of the three or four major research institutions that looked at this, including the federal government. We said it is not going to have a major effect on employment over a decade; I think we had a couple of hundred thousand more people working. It was very small. The reason was that so much of what we produce is already traded on international markets at international prices without any tariffs. What we did say was that there would be a major adjustment challenge, as we put it, in footwear, clothing and food processing, no question about that; also in autos and parts, as I recall now too.

Again, when you try to quantify that and say how much, big, small, that is where you get into this judgement call. It is very difficult to do. Our view of it at the time, and I still feel this way, is that a lot of the debate now has confused this cyclical short-term crunch on inflation with high interest rates, which drive up the currency too high. They have confused the effects of that with what is happening in the structural side under free trade. So when you compound the free trade agreement and the adjustment going there with a currency moving up gradually to 86 and 87 cents, it is not surprising that manufacturing jobs are lost. Paul did say that we only had one quarter since, what was it, 1982, when manufacturing employment got back to the peak; it was in probably the second or first quarter of 1981. So it was a long process to get back and I would say to you that you have to anticipate that again. It is not going to snap back quickly.

**Mr Jamison:** My question really was if that had not been weighed into your effect, that I was able to pick up on. Again, I am sceptical of the rebound—

**Mr Frank:** That is fine.

**Mr Jamison:** —when you say it is going to happen. If we have high immigration and we have a high unemployment rate, again, I do not know if that equates to a rebound, in the same manner that you have spelled it out.

**Ms M. Ward:** I just have two quick questions. One, you talked about the price of oil and the effect that different prices might have. What other economic implications of the war do you see if, say, it extends for some time?

My other question is more a quick informational one. You were talking about the net population outflow of 10,000 in 1991. I may have just missed your complete

statement, but is that net of immigration or just from other provinces?

**Mr Darby:** Just provincial, just net interprovincial.

**Mr Frank:** It is people moving to Ontario from another province, minus people moving from Ontario to another province.

**Ms M. Ward:** Not including immigration from outside Canada.

**Mr Darby:** That is right.

**Mr Frank:** Your population continues to grow.

**Mr Darby:** In terms of the impact of a longer war I think it only becomes significant in terms of government financing when and if they run out of their current stock of munitions. It is at that point that they have to face some serious questions about resupply. They are not in a situation where they have a lot of excess capacity. They have some excess capacity, but not a lot of excess capacity in the munitions industry. I am talking particularly about the United States now. Hence it is not clear that they are going to get much of a price break. In other words, I do not think it is going to be cheap. As well, they are not in a situation where they have a large surplus in their fiscal situation. The US is running a substantial deficit, as we all know. So financing at that point will become difficult in the United States.

I think we are looking at something, we are talking about a war which would be lasting on the order of a year or more before I think that becomes an important issue, but at that time I think, yes, there could be some severe strain on financial markets in North America, there could be real issues about financing the war. Where is the money going to come from? I think we could see some substantial increases in interest rates; there may have to be tax increases; they may have to consider some sorts of price controls at that time. This is not a cheap war. That is a real risk, that they will have some major financing difficulties in the United States if the war goes on long enough that they run out of their current supply of munitions.

If the war does not go on that long, they can spread it out, resupply over a number of years. There are no other real international threats, at least currently, on the horizon particularly with the cold war winding down, so they could take a fair number of years to rebuild their supply of munitions and the strain on their fiscal situation would not be nearly so severe. But if the war does go on long enough then I think we are looking at some substantial financial problems with respect to financing it.

In Canada, clearly the burden is not as severe because we are not financing as much of the war. I think the issues will still exist to some extent in Canada, but not nearly to the same extent. I think it might be fair to say that if the war went on for a long enough period of time, there are some sectors of the Canadian economy which might benefit. Those would include those supplying munitions to the US government as well as perhaps some of the primary sectors mining and nickel. I think there are, though, major issues with respect to the overall financial situation in the world economy if the war goes on for a long period of time because as I say, there is not a lot of excess capacity



d it will put upward pressure on prices. If we remember back to the Vietnam war experience, that upward pressure on prices was, if you like, accommodated and ended up with the 1981-82 recession at least partly cause of that.

If they feel they do not want to accommodate that kind of pressure on supply which would result from a long war, then we are talking about generally higher worldwide interest rates. If the war goes on for a long period of time, I think it is a fairly good guess that interest rates worldwide would rise. That would clearly have some dampening effect on the world economy, including Canada's.

**The Acting Chair (Mr Sutherland):** Thank you very much for your presentation. It is very important to this committee to get that type of general forecasting information. We are very happy that you were able to come and share so much time. Our apologies for the delay in your presentation.

Our next presenter is here already. This committee was supposed to reconvene at 1:30. I am wondering if, with his permission, we could make that 1:45 to give some time. I would just ask that everyone try to be here promptly at a quarter to two. We will reconvene then.

The committee recessed at 1313.

## AFTERNOON SITTING

The committee resumed at 1350 in committee room 2.

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**The Chair:** I think we should begin the afternoon session. I would like to thank Mr McCracken for coming. He has graciously volunteered to make a presentation this afternoon. If you would like to begin.

**Mr McCracken:** I was most interested in your questions. What I would like to do is very quickly go through a handout there just so you know what is there and get a sense at least of where I am coming from. Then we can throw it open for questions. I know you are already running a bit late and you have a large stack of people seeking funds stacked up behind me. I am not seeking any funds, so we should give them full time.

What I would like to do is give you some sense of how we see the Canadian and Ontario economies evolving in the coming years. In particular, I will speak mainly to the environment that you are going to have to be dealing with in the context of your budget deliberations. Most of the emphasis will be on the national economy, but I am prepared to speak to some of the numbers on the provincial side as well.

Before we start, I think it would be good if we could share a common view about what is good economic performance—what is the target, if you will, in terms of the rate at which the economy should be expanding.

For the national economy, we have a concept called potential growth or potential of the economy, basically a number in terms of a growth rate that is consistent with the unemployment rate neither rising nor falling. If the economy is expanding at roughly 3% per year at the present time, we would expect to see, with very minor perturbations, an economy with a stable unemployment rate. The potential of the economy is much more arguable. It is, how far can you go in a sense of full employment and a stable unemployment rate? My view is that that is a number for the national economy more in the neighbourhood of 5% rather than the level of 8% that seems to be implicit in the actions of the federal government. Either one of those is, at this point in time, looking for a return to an economic growth rate of, let's say, 3%, which would be sufficient to keep the unemployment rate from rising further.

Why do we worry about that? If you start talking about economic outlooks in which the outlook is for 1% growth or zero, or negative, or even 2%, what you still face is an environment in which that unemployment rate will continue to rise. This notion of potential is essentially determined by two things: one, the growth of the labour force—in other words, how many new entrants, net, will be coming in—and two, the productivity growth of the economy that you are looking at.

It appears for Ontario that the potential growth rate is roughly of that same order of magnitude, roughly 3%. If anything, it may be slightly higher. Productivity growth in this province may be slightly higher than the national, and with the substantial increases in net immigration expected

over the next few years, labour force growth in this province may be somewhat more rapid than in other regions. That is the target we are looking at, and this number is not fixed and immutable.

Back in the 1960s and early 1970s, potential growth rate for the Canadian economy was about 5%. We had very much more rapid labour force growth at that particular point in time, and a more rapid productivity growth. In the last half of the 1970s, this number was more on the order of 4% and in the 1980s moved down through 3.5% towards 3%, and when we got out into the period 2000 and 2010, basically the numbers look like they will be on the order of about 2.5% or 2%.

What of course interests you is, what is it now or over the next two, three, four, five years? It is 3%.

Before we get into the forecast, we should make clear as I am sure all the other forecasters who have come to you, that there is no such thing as a forecast of the economy without a wheelbarrow full of assumptions that come along with it. We make what are called conditional forecasts. At the present time a very key one is the assumption that people are making about the world oil price, and in that particular instance, we are assuming in the forecast that you see here that the world oil price will average roughly US\$30 through 1991 and drop to \$20 in 1992.

We have other cases. We have cases with lower prices and higher prices, but I have not yet been moved off the forecast which we prepared back in late November nationally, and on a provincial basis we are back still preparing the final parts of it.

All of us know the price today is down below \$30, in the low 20s, but what we are in a sense suggesting to you is a period in which that price may bounce back before dropping. In 1992 we have the price dropping to \$20. I would not, if I were you, get too excited about that. If the number is different from that, I can tell you roughly what it does so it is not as if we are not aware of the marginal effect of that. But I have been reluctant to jump on the bandwagon and assume \$20 for 1991, or even \$15 or \$12 as some pundits would have you believe.

A second key assumption is that with the fiscal package that has been put in place in the US and the kind of world oil price scenario that we had, the US economy is in a recession from the fourth quarter of 1990, continuing through the second quarter of 1991, with the result that the US economy essentially does not grow at all in 1991; in fact, it slightly declines. In that environment, there is some easing of interest rates in the US, and that again, in 1992, with the cessation of war and a substantially lower price for oil, inflation eases and the real economy in the US expands on the order of three-plus per cent.

In describing the outlook in a very general sense, we would like to build it up in the form of a set of recessions or a set of factors.

Recession A started in April 1990 nationally, the last half of 1989 in Ontario manufacturing, and is in a sense the result of the high real interest rate, high exchange rate



and the fiscal cutbacks at the federal level particularly that have been put in place. This particular recession was proceeding and was fairly mild, although occasioned by a rise in the unemployment rate and negative growth in the second and third quarters.

There was a recession B which started shortly after 2 August as a result of a sharply higher oil price. If you take that as being roughly a \$10-oil-price shock, what that translated out to in the Canadian context was something very similar to a \$6-billion tax increase which consumers and others would pay, plus roughly a \$300-billion tax increase worldwide occasioned by a \$10 oil price being applied to the 50 million barrels a day of consumption.

Sure enough, that weakened the US economy. Europe and Japan hurt our exports, hurt our trading activity internationally, so the combination of those two gave us recession B. That was on top of the recession that we had already in place.

There was a change of that particular recession as of roughly 17 January into, let's call it, B prime, which is a war, which in the first few hours pushed the oil price up to \$40-plus. But the enthusiasm that was exhibited in the sense that this was going to be a quick one led to prices—I think the lowest they got was about \$19, and now running around \$21 or \$22, which is however just in the first few days, so we ought not to get too excited or make too many guesses about how it will proceed.

The point of that one is it has taken that tax hike off in the world. It has taken it off in Canada, although there is a few months' lag before it comes through. But we have nevertheless created some new uncertainties out there in terms of both the duration and the possibility of other adverse effects downstream.

1400

There are a few things that have not yet happened but which, in looking at the next few months, we ought to not forget about that could affect the outlook. We have not in this forecast inserted them, but there is the issue of, will GATT fail? And if it does, what would be the fallout from that and will there be an inability to reach a decision or remove to protectionism? As a trading nation, and one particularly with a lot of agricultural exports, that would be bad news. Then we have our own factor of political uncertainty in Canada regarding Quebec and the rest of Canada, which could be both this year and next a device for a shock to the system if the developments there are deemed to be pessimistic.

Okay, so we are sitting here; we have an outlook. I will summarize that quickly for you. The good news we are looking for, if we can see it, would be things like world oil prices declining, interest rates declining, both in nominal and real terms. Good news in some sense would be no increases in taxes or cutbacks in expenditure at the federal level, a recovery on the US side and some pickup following that on the demand for resources and basic industrial goods, all of which would be to Canada's benefit. When might that happen? No one knows, but I just described to you the conditions. I would think at this point that April, May, June of this year are likely to be the earliest, but there is no reason to think it is something automatic that is going

to happen at that point in time as long we prolong the continued poor economic performance.

Just with reference to the charts, I have tried to give you through a sense of an arrow what is happening. In 1990 the economy declined or slowed down in growth, averaging only less than 1% in real growth. In 1991 we are anticipating another very substandard year, with negative growth overall, with a weak consumer, business construction falling, housing, government restraint continuing, exports weak with a weak external economy, inventories being snubbed in.

If oil prices went to \$20, they would add about 1% growth in 1991 to the numbers you see there. That would be insufficient to overcome—it would basically turn it into a zero year or a slightly positive year but still one which is a recession by any stretch of the imagination. We do however in this scenario with lower oil prices, with a recovery of the U.S. economy, with declining interest rates, see a fairly sustained recovery in the 1992-95 period, again conditioned on the kinds of assumptions that we are making.

For the province of Ontario I have plotted for you the real growth that we are forecasting year by year, or just for the next five. We would go out to 2010 or 2020, if you wish, but I do not think anyone in this room has that long on the horizon, so I thought just four or five years might be an adequate thing for openers. Essentially, in 1990 the Ontario economy did worse than the national, in our view, whereas the national economy expanded a little less than 1%. Our calculations suggest the Ontario economy declined by about 0.6%. In 1991 we anticipate the economy will decline by about 1.5% in real terms, again somewhat more sharply than the national economy. But in the period 1992-95, the Ontario economy will expand above potential, will expand at a rate greater than the national economy. Those numbers in 1992 are 4.9%, 6.2%, 5.5% and 4% in 1995. That is not unusual, as you can look back to the last recession. I purposefully wanted you to see the 1982 recession in here. Again, Ontario dropped more than the national total, but in almost all of the years since then the Ontario economy has performed at or above that of the national economy.

Now inflation basically in 1990 was slightly down; 4.8% on a year-average basis, compared to 5% the year before. In 1991 we are suggesting this will go up substantially, something in the order of 7%. Again, if we take a lower oil price view, it averages \$20 instead of \$30, we would knock about one or one and a half percentage points off that, so you would be in the 5.5% to 6% range. But then you would not see as much improvement in inflation in 1992 if that occurred, because we do have the price dropping.

A big story in the next few months will be the GST. It is expected to push up all the measures of inflation. With the economy as slack as it is, there is I think a strong likelihood that it will be just the GST that you see, at least initially. As the year evolves, you should see inflation rates cooling quite substantially, the year-over-year down to 5% by October, inflation less than 4% in both 1992 and post-1993-95 period.



I am just hitting the major aggregates, just to give you a sense. The unemployment rate rose in 1990, averaging 8.1% a year as a whole but ending the year at 9.3% nationally. In 1991, that continues to rise, consistent with that slow or negative growth. We expect an average for the year of 1991 of 9.7%. That would imply greater than 10% likely in a number of the months. In 1992, the average is still above 9% as the overall economy expands only slightly above potential, and it is basically down to about 7% by 1995.

In the last recession, these next two charts, one shows you what happened in the 1982 recession and another one shows where we are going now in the 1990 recession. You can study those in more detail. The large number by each province is the total increase in the unemployment rate that occurred from when the unemployment rate first started rising to when it stopped rising. In the case of, for example, Canada, in July-August 1981, it was at 6.9%; ended up in December 1982 at 12.8%, for a rise of 5.9%. At the same time, Ontario went from 5.9% in August to about 12.1% in that same recession, for a rise of 6.2%.

Now, where are things so far in this one? I think that what is interesting, and the other point may be too, is some provinces had already started slipping before the official recession date or the national recession date, and some lagged, the unemployment rate continued to rise, post that period. In this one, the province that stands out like a sore thumb, both figuratively and literally, is Ontario, whose unemployment rate since June 1989 bottomed out at 4.7%, has been rising since that point in time and is now up to 7.8% in December.

Most of the other provinces joined in later, around the April start date of the recession. But there was already, if you will, a regional or a provincial recession or industrial recession that was showing up in rising unemployment rates in Ontario. So it is of a somewhat different pattern from what we have seen before.

If you plot the unemployment rate in 1981-95 in Ontario, again you can see the same pattern that I spoke of a moment ago, of the unemployment rate rising during the 1990-91 period and only slowly coming down post that period. The Ontario numbers here in 1989 are 5.1%; in 1990 6.3%; in 1991 8.3%; in 1992 8%; in 1993 7.1%; 6.2% and 5.7% in 1995; again, the unemployment rate in Ontario remaining below the national but nevertheless rising, not unlike it but in the recovery period perhaps dropping slightly more rapidly than the overall national rate.

Interest rates—again an important element in your pre-budget discussions—where are they going? We saw them rise in 1990, on average. It was a crazy year in many ways, with interest rates rising in the beginning of the year and more recently having come back down. The prime rate ended up at 12.75% at the year end, having peaked at 14.75%. In 1991, we see some further easing of interest rates, even with the goods and services tax and the oil price shock, primarily occasioned by the very weak economy and declining US interest rates. A prime of 11 or less by the end of the year is not unexpected. There are some optimists who think it may be down at 10 or even lower. In 1992, we see some further easing, particularly if the infla-

tion rate does come out around 4% or less. A prime rate of 10 or less is possible in that environment. Over the 1993-95 period, we are suggesting some continuing easing in real and nominal rates, some stability returning to the system.

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On any day-to-day or week-to-month basis, we caution you against trying to bet against the Bank of Canada in terms of the movements of interest rates. They are full of surprises.

Another key variable is the federal government balance, how it stacks up, because that may condition again the environment within which you are operating. In 1990 the deficit slipped somewhat from both the plan and the previous year. Basically, the slowing growth and higher interest rates that were in the February budget have caused them to raise their deficit forecast by some \$2 billion.

In 1991, we suggest there will be a substantial further slipping of the federal balance with the startup costs of the goods and services tax and a weak economy. The costs of the Gulf war may or may not be significant. We can talk about that, if you want, in your question period. Lower interest rates, if they materialize, will help somewhat. Our estimate is roughly \$8 billion higher than their target in the last budget, on a fiscal-year basis \$27 billion, \$28 billion or roughly \$35 billion, compared to the fiscal year 1990-91 of about \$5 billion.

In 1992, with improved economic growth and with lower interest rates, we see some turnaround in the deficit here, lowering by about \$2 billion from the level achieved in 1991, and some further improvements as you move out.

The key and most important factor in what happens to the federal government balance will be a restoration of interest rates to more normal levels, real interest rates. We can talk again about that, if you wish, at greater length.

The exchange rate appreciated somewhat in 1990, averaging over 85 cents—about 85.6, I think, was the final number—as interest rates remained high relative to US rates. We are expecting some depreciation in 1991. But I must tell you that that is a tenuous forecast. We have been wrong there, I think, as much as we have been right. Again we see some further easing in 1992, 1993, 1995. If this does happen, it helps on the real growth side, it helps our exports. It gives you a bit more inflation, and that is the tradeoff, but it would be consistent with the story of some easing interest rates that I portrayed to you a few moments ago.

Very quickly, what are some of the short-term concerns that we have? Obviously, the recession itself: How long how bad? Will in fact this interest rate break continue? Everyone is so excited about interest rates or the bank rate being down below 11, the prime rate at 12 or declining. But I would suggest to you that, setting aside the goods and services tax effects for the moment, you are still looking at real interest rates in the Canadian economy in the order of bank prime 8%. In Treasury bills you are looking at something in the order of 6% to 7%, taking a 4% view of inflation.

When we look a little bit outside of the Canadian system, we see a US system in which the financial institution



main in trouble, real estate projects are still in jeopardy, real estate loans are still problems. So we could get some nasty surprises in that dimension.

The goods and services tax is a reality. We are watching how it does work through the system. But clearly, in the first year in particular, it does hit the consumer; that has not been an issue of dispute. The overall economy was supposed to be roughly neutral. This depended on investment picking up in response to lower investment costs. We will be looking for that to occur.

Then, of course, we will all watch what is happening in the Middle East where things could go, it seems to me, either way, up with oil prices over \$40 or down \$15 or more. As I say, if those get pushed off the popular list of concerns, we ought not to forget the fallout potential from the constitutional debate or other actions in that area.

Let me try to take a quick whack at some considerations to prompt some questions in this whole area about whether any provincial fiscal action is desirable. I understand this is a pre-budget feeling out or setting up. The old adage in Canada has been primarily that any sort of contra-cyclical fiscal policy, that is, something trying to do something about a recession and a rise in unemployment, is the prerogative of the federal government; "purview" not in any constitutional sense, but that the feds are in some sense the right group to do it.

This has been taken on head-on in a recent article by Tom Courchene in the second volume of the C. D. Howe Institute's inflation study called *Taking Aim*. There is an extended section in there on provincial fiscal policy. Basically the point that he is making there—I think they all have some legitimacy—is that would be great if in fact the federal government were willing or capable of taking contra-cyclical fiscal policy, but what if it does not or cannot. In particular, with a high interest rate and a focus on inflation reduction as its overall objective, you run into the situation we are in currently where the federal government, at least up through 2 August, would have taken credit for the recession and the rise in unemployment rate as a deliberate policy to slow the economy down.

Tom Courchene argues that we ought to look again at the old adage and recognize that different parts of the country, particularly in the Canadian context, may be behaving quite differently. There may be relative price shocks that help one area versus another. For example, at the moment or up until 15 January, one would have said Alberta was given a psychological boost at least and certainly something in the order of \$3 billion a year at annual rate on the higher oil price flowing into that economy, the private sector, another couple of billion into the Treasury. At the same time, Ontario was getting hit by overvalued exchange rates and by interest rate policy, two variables which Ontario was particularly sensitive to among the provinces. In that kind of an environment, what makes you think a national contra-cyclical policy would be appropriate? Should you not be tuning it in fact to the particular regions?

One of the other factors he raised is that the fiscal multipliers at the national level may be difficult to move around. There may be more opportunities for focusing par-

ticular expenditures, ones with higher domestic content, at the provincial level. Of the areas that you might want to stimulate for that purpose, the non-tradeable goods and services are again areas that perhaps are most directly in the bailiwick of the provincial governments. Interest rate policy is something which the feds basically have to keep interest rates in line between Canada and the world, although Tom realizes that the bank has not been quite doing that over the last several years, and he raises the hope that there might be a concerted action with some co-ordination with the federal counterpart.

In other words, if a province could stimulate and the federal government would not offset it at the same time, you might have a basis for a somewhat more tailored or more focused fiscal policy than we have. If you were to do that—these of course make sense for both the federal side and the provincial side—in the provincial context the kinds of things you can do are obvious: reducing various taxes, particularly sales tax, speeding up infrastructure spending—we have already seen some announcements of intent to do that by this government—fast-track expansion of social housing, starting up of planned hospital and school construction now, adjusting unindexed welfare payments.

In this particular environment we are in currently, that would go some way to offset the shocks from the oil price increases that are already in the system. Then there are other things, basically the criteria, something which is fast-acting, reversible and where you can minimize the leakages into imports.

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So let's do it, right? No questions. Well, there are constraints out there and those include what the fiscal position of the province is. Will there be offsetting federal moves? If there are, all you will have managed to do is twist the people in the provincial economy, one way by provincial policy and then the other way by federal policy. There may be constraints in terms of leakages, although again I suspect any leakage to other provinces of increased economic activity might well be welcomed. Then you may be constrained in terms of how many options of speedy things you have to do if you have already exhausted that list.

Let me stop there. I hope I have occasioned at least a couple of questions, and if not, we will get back on schedule real quick.

**Mr Sutherland:** You have presented all your figures here. I do not claim that my knowledge of economics is that great, but you seem optimistic that we are going to come out of the recession later this year. I look at what you forecast for 1991, 7% inflation, right? You also expect the federal deficit to be going up \$8 billion and that leads you to believe, though, that at the same time the interest rates will come down towards 11%. I do not see how a 7% inflation rate and an \$8-billion increase in the deficit, based on what the Bank of Canada has been doing, is going to come down. If that does not come down, I cannot see the Canadian dollar coming down significantly, which has an effect on the manufacturing sector which is supposed to drive our economy.



**Mr McCracken:** Should I explain it?

**Mr Sutherland:** Yes. Looking at that, it does not seem we are going to recover as quickly as what you said in your brief.

**Mr McCracken:** Okay. I purposefully chose to sort of put out that 7% number just hoping I would get a response like that. The consumer price index is a useful measure. Every month it is timely but it is a terrible measure of what is really happening out there in terms of inflationary forces in the economy. It includes all the indirect taxes, it includes tuition fees, it includes imported goods, and in the case of the goods and services tax, we know the whole effect of it is to concentrate the tax on the consumer. That is the whole purpose of the exercise. So we know that if we are going to look at any price, it is going to be the CPI that is likely to get the biggest hit from those kinds of things.

It is also important to distinguish between inflation—and perhaps I should have done so in my comments—meaning an ongoing process in which prices continue to move out at some phase, and one-time price shocks. Both the oil price and the GST should both be viewed as one-time shocks to the price level, not as inflation. In the case of the GST, while the consumption deflator or CPI will go up roughly 1.2% as a result of the GST alone, at the same time, in 1991, investment prices will be declining by 2%, machine and equipment prices declining by 6%, government investment by 1.8%, even government expenditures, the deflator will be going down slightly. Exports will be declining about three tenths of a point.

If you look at a broad measure of the price behaviour in the Canadian economy, the so-called GDP deflator or the national gross domestic product deflator, the total impact of the GST on that measure is only about one tenth of one per cent and that number for 1991 would be in the order more of 5% or less when the CPI is 7%. Same story if you look at the world oil price. While it might be adding somewhere between 1% and 3% to inflation in 1991 if it is at \$30, if it reverses to \$20 in 1992, you would be taking 1% to 3% in the other direction.

I think one has to distinguish those two components and I would suggest to you the Bank of Canada in a public statement has said it will. They will not be reacting to the oil price shock or the GST shock. They will be standing on guard for thee against any induced effects from those. But with a slack economy it is not clear that you are going to have large induced effects, so we would suggest that they will be reacting to something in the order of a 4% or 5% inflation environment, maybe even towards 3% and 4%, which is consistent with interest rates coming down.

In fact, if they were perhaps a bit more sensible, the rates would come down even a lot more because the level of real interest rates, that is, nominal interest rates less the rate of inflation, is still extremely high. It has been high for most of this period of expansion as they have tried to experiment with a new way of conducting monetary policies. So think about the 7%, but also do not forget about the 3% in terms of what is coming up.

**Mr Sutherland:** But do not worry about that deficit increase that you mentioned, because that seems significant in what has been talked about before about keeping the deficit under control so they do not have to put interest rates up.

**Mr McCracken:** I do not think they will have to put interest rates up because of the deficit. There is a debate in economics in terms of which way the arrows flow. I tell you with mathematical certainty that higher interest rates raise the deficit, the debt servicing costs. It is much more dubious about the arrow running the other way: large deficits in fact cause higher interest rates? That is particularly dubious in an international economy or open economy like the Canadian economy.

I would suggest to you most of the reason that the deficit will soar in Canada is because we will be growing 3% to 4% below potential growth. In that kind of an environment, you have no expectation other than a rise. Unemployment insurance contributions are fixed in 1991 and 1992 so that they will take the full heat on the unemployment insurance program and the federal deficit in the two years.

There are a lot of things that are working adversely, but again, one ought not panic on it, because if you can restore the economy back to growth to get that turnaround and you can keep those interest rates moving down, a lot of the heat will come off the public deficit.

I will try to make my other responses a little shorter. I think that is a good question.

**Mr Christopherson:** First off, I want to thank you for the presentation. I particularly like the format and the simplistic, if you will, way that you have laid out all the key issues.

**Mr McCracken:** Can we change that to say "simple and clear" as opposed to "simplistic"?

**Mr Christopherson:** Fair enough. Given Hansard accuracy, we will make sure we say the right thing.

I really was impressed. Many of the presentations have been as equally good in their calibre, but harder to distinguish the most key things being brought forward. I thoroughly enjoyed this.

I have just a couple of questions, both of which are on the third to last page. You said in your notes that the financial system is in deep trouble. I think you used the phrase that there could be some nasty surprises. I would be curious to know your opinion on what would happen if there were major bank failures. There are already some. Some are suggesting that the S and L is the tip of the iceberg vis-à-vis the entire financial situation in the state. If the banks start to tumble, how would that affect us and what should we watch for?

The other thing is under the last point on the possibility of \$40 per barrel. It was suggested by a previous presenter—they did not use a \$40 figure, mind you, but they suggested that probably what we would see is just, as they qualified the word "just," an extension of the recession for one or two more quarters and that there would be any real further deepening of the recession or any other impacts. I was rather surprised by that, but I would like



our thoughts on whether you think that is "just" an extension that would happen, or are there other things that would happen if that turned out to be the reality.

**Mr McCracken:** On the US side, you can be schizophrenic. You can get very, very worried. When you look at the number of banks, as opposed to savings and loans, that are on the level 4 list, in trouble, when you see large institutions like the Bank of New England having to become the New Bank of New England, when you see some of the largest banks in the world posting large losses, in the case of First City or Citibank, you can become very concerned.

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In the conduct of monetary policy in the US, we often think—and even in this country we often say that the first objective is to get inflation down da-da-da, but there is a page 1 and we ought to realize why the Federal Reserve system is what it is today and the pressures that put in place at the Bank of Canada. Basically, page 1 says, "You shall not let the financial institution in the system in the country come down around our ears," because we have had that before. We have had that in the US in the 1930s when the banks all had to be closed.

I think what you really want to think through, and put a very low probability on, is system-wide failure. So what then is the next step? The next step is one in which the Federal Reserve and the regulatory institutions take a heavier and heavier hand in the regulation of economic or financial institutions in the US; where there is probably a tendency to lower interest rates, thinking that that will reduce the cost of money to those institutions, allow them perhaps to spread their margins, which is what happened with most of the interest-rate declines in 1990—the borrowers did not see the lower rates, but the spreads of the banks were widened to keep them profitable, or to keep them at least above water—and there will be a focus on getting the economy moving.

Inevitably, when that happens, though, there are some secondary effects. Basically, financial institutions get tighter in terms of their credit-granting. They start getting credit-conscious. You start having other institutions getting in trouble, some non-financial corporations, where the banks throw up their hands and pull the plug or they cannot get the financing and therefore they go into bankruptcy.

I do not think it is going to get completely out of hand, but I would suggest to you that it is going to be a continued pressure. As a result, it makes one less optimistic about the US economy growing, but it probably makes you more optimistic about the kind of interest rate policy it will pursue. In other words, there will be a tendency to err on the downside to lower rates in the US environment. That is a positive item for us; at least it gives us more room in which we could move our interest rates down without any exchange rate consequences.

To the extent that these failures lead to problems on real estate loans, lead to problems of syndicates that the Canadian banks are involved in, it could cause them some problems in terms of larger losses. But again, I do not know of any bank in this country that is so involved in US

real estate or so heavily involved in any one particular activity that it is going to have any destabilizing problems. Sure, they are going to lose some money, but it should not affect their decision process here. In fact, it might even remind them that there are some good opportunities here.

On the second point, the easiest way, I find, and it seemed to work pretty well in keeping my thinking sorted out during the first oil price shocks and all the oil price shocks, is to just think of it as a big tax increase. So for every US\$10 the world oil price goes up we are consuming basically 50 million barrels a day. That is \$500 million a day, so that runs out at about \$200 billion a year that you would have for every \$10 tax increase. In Canada we consume roughly 600 million barrels a year, so for every \$10 that would be another \$6-billion tax hike.

Whenever you raise taxes, the immediate question comes up, what do the people who get the money do with it, compared to what happened to the people who paid the tax? If we are paying the tax, we are going to cut back on our expenditures. What happens to the people who get it? If it is going to the Organization of Petroleum Exporting Countries and we are not respending it in Canada, then that is a leakage. We lose that. If it is going to Alberta Treasury and it is simply using it to retire debt and to stock up financial assets, there is no recycling going on. If it goes to the oil companies that are paying off loans and improving their balance sheets but not doing any investment, then there is no recycling in that area. If it is going to the federal government in higher corporate income taxes, and then they are using it to reduce the deficit, there is no recycling.

That is the worst case where you would get \$6 billion. If it goes to \$40 billion, it is another \$6 billion on top of that. And it is not a one-timer; it is continuing as long as that price stays up there. So I do not see how people could argue, "Oh well, it is just another couple quarters of damage," because it is a permanent diversion of income. It is not going to be transitory unless you think the world is one in which oil prices now will stay at \$30 or \$40, in which case then you begin to see some recycling occurring out there.

You see the oil companies saying: "Let's go put some more holes in the ground. Let's look at secondary and tertiary recovery. Let's dust off some of these megaprojects and go with those." Or you see the Alberta government cutting other taxes out there, buying consumer goods, which has a shadow effect back here. Or you see the federal government saying, "With that source of income, I do not need to take as much out of your pocket over here." So it is recycling in some sense.

In the ultimate sense, if you could somehow ensure yourself that this tax increase would trigger twice as much spending over here, then you could get a positive effect out of it. But the betting at the moment is that any of these jumps in oil price would be viewed as transitory, the exception being, for example, that a significant part of the Saudi oilfields were taken out and taken out in a way where people say there is no way that is going to be coming back on stream for a number of years. Then I think you would see people focusing everywhere. Where can I get



some oil? You would see Hibernia and you would see tarsands plants. It would be a rather macabre world in which to do that.

**Mr Christopherson:** What would be the effect on the economy of that say, \$6 billion, if that is what went out to OPEC?

**Mr McCracken:** Well, \$6 billion is roughly 1% of the economy, so you are basically sucking 1% out. That is the easiest way to think about it.

**Mr Christopherson:** And that would do what, though? In a recessionary time, that would have the effect of—

**Mr McCracken:** You have a 1% growth, an unemployment growth 0.5% or more as a result of that. So it is just like, it does not matter who puts the tax on.

**Mr Turnbull:** Mr McCracken, I would like to throw out your views on this question of debt. The provincial debt, during the last five years of the Liberal government, increased substantially. That was during a period of probably the best growth that Ontario has had in the last 50. It was not just a question of the debt load, it was actual increases in program spending where, as I believe, during that same period the federal government has been able to control program spending within the tax that it is gathering, but it has not been able to wrestle down the debt and therefore the cost of servicing it has increased that debt.

What is your view as to, I mean, if you were to advise all parties here on what we have to do and how urgent it is to start addressing the paydown of the debt. I do not think anybody here would suggest that this is the appropriate year to do it in, but there has to be a certain point in time when you as an economist would say that this is the appropriate direction for the government to go in. What sorts of benchmarks would you use as to when that battle would be appropriate?

**Mr McCracken:** Let me try to tackle that. First off, can we all assume we are not talking about waste in government expenditure, we are not talking about all of that stuff? We all, as a motherhood or fatherhood virtue, will go for more efficiency in government spending wherever we can get it. Let's put that canard aside, all right?

The issue then comes down first to, what is the social return that you get on the activities you undertake as a provincial government, and how do those compare to the financial cost of borrowing to finance that kind of an increase if you chose to finance at the margin, some of that through debt? That is the basic question.

Now if in fact, as they are all supposed to, your departments and the people coming to you soliciting funds, have done a proper benefit-cost study and have shown that their real rate of return exceeds the 10% real or the 8%, whatever the hurdle rate is in this province, and if you can borrow at 4% or 5% real, then what is the problem? There is none.

I am talking theory here now. The only still residual nagging problem that there may be is if you are in a world, as we unfortunately have been for most of the 1980s, where the absolute level of real interest rates exceeds the real growth of the economy.

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Then the thing you know is that that debt-to-GDP ratio for the province, the ratio of your debt divided by the size of your economy, will continue to rise as long as that real interest rate exceeds the real growth, unless you are prepared to run a substantial so-called operating surplus or primary surplus. That is not theory, that is arithmetic.

The question mark even then is, so what? In other words, what happens with a rising debt-to-GDP ratio? There are conjectures that this could be a problem, although those conjectures have proven so far to be unsubstantiated because debt ratios have been rising for the corporate sector, for the government sectors, not just in Canada but in the US and elsewhere.

Certainly, we have historical periods in which the debt ratio was extremely high; coming out of the Second World War, over 100%, the federal debt-to-GDP ratio, double what it is today. But at that point in time our environment was one in which real interest rates were low, real growth was high and we found that that debt-to-GDP ratio essentially evaporated over time. We outgrew it. So you, it seems to me, have both a microproblem, ie, are our systems for making judgements about what we do on programs and on new capital expenditure such that we are assured we are getting good returns on those decisions relative to our borrowing costs?

Second, what kind of an environment are we going to be living in over the next decade in terms of real interest rates relative to the real growth of the economy? In other words, are they going to be greater than 3% real or not? If they are greater than 3% real, you should recognize that you will face rising debt-to-GDP ratios if you choose to not offset that with some kind of a primary surplus. You may or may not lose sleep over that. Certainly a lot of people lose sleep over it, but they do not do anything about it. We have had rising debt-to-GDP ratios in the US, Canada, Italy and in most other countries of the world. But that is really what it boils down to.

Now, when have I raised this notion federally with people, that the real rates return and what they do should exceed their real borrowing cost and that they are, of course, doing these proper benefit-cost studies, all I get is eyes rolling back into their heads and saying, "Gee, I wish we did have that information."

So if that is the problem, I mean, if you are not confident that the returns that are occurring out of your expenditure are greater than your borrowing cost, then you have a problem. But that is a management problem, it seems to me, about what you choose. You want to make that choice regardless of whether you are debt-financing it or not. I mean, there is no point in your going out and spending money on a program, even if you are running a surplus, if the return on that particular program from the societal viewpoint is lower than what return you would get if you left the funds out there to be used by people and not taken away from them in taxation or in future commitments through the debt.

So I am not trying to be simplistic on you, but it seems to me you can focus on a couple of problems. You may say as a strategy, if you think real interest rates are going to



remain high for the decade, that we ought to be leaning towards something where we stabilize that debt growth or do not let it get too high. That might mean that you have to choose a mix where you are running an operating surplus or a primary surplus as you get out there.

Again, I think your comment was quite well taken. You want to choose that time carefully. It is a long-term choice that you are making and certainly, when you are operating as we are now in a recession economy, the last thing you want to do is to convince people that your actions are going to make it worse and longer, because that runs the danger of triggering a loss of consumer and business confidence, which could in fact deliver on a much worse outlook and choke off a lot of private decisions to spend or to invest.

**Mrs Sullivan:** I want to go back to your final two pages as I frame this question. It seems to us that as we have listened to presenters during this period, and from what we know about this recession, that there are two factors involved in this particular downturn in the economy. One of them is structural change, and the other is the recessionary factors which have been described in great detail. In the manufacturing sector we are probably looking at a sector which will never have a recovery in employment that we would have seen, say, before 1982 when there was a structural change following that. Probably manufacturing is as lean and mean as it will ever be.

I am interested in seeing some of the figures on our business investment growth and seeing that, although there is a decline in that area, there is still substantial business investment and in fact continuing emphasis on research and development. I was interested that you and the Conference Board both talked about, and this is the first time that I have heard it, a severe decline in manufacturing and machinery equipment. In the long run, if we are looking at injections of provincial dollars to jig the economy, to jig a recovery, if you like, I am wondering, given that the predictions of a short-term period for recovery, that we are talking now about another two quarters if in fact the injection of provincial funding is valid and valuable. Second, what sectors, given structural change in certain sectors, would that injection to rejig the economy, to reflate the economy, be most valuable in? In fact, what is the value, if any, of provincial jiggling?

**Mr McCracken:** Let's start with separating out recessions from structural change. Okay. First off we cannot, but the one thing we typically notice is that structural changes happen slowly. In fact, that is why we call them that. I would suggest to you, just to be a bit heretical, that the structural changes, for example the deregulation, the GST and yes, even the free trade agreement have little to do with the recession that the Canadian economy is currently in, or the Ontario economy.

Some sense of that you could get from asking what was the largest possible effect you might have gotten relative to prices or on tariff removal out of the free trade agreement, and compare that to the kinds of movements in the exchange rate that have occurred over the last couple of years, you would see that that is the dominant element

more so than the other one. If you recall, on the unemployment rate side, we have the economy moving up to 8.3% with vigorous economic growth in 1992 through 1995, ie, above potential. Nevertheless the unemployment rate still only comes down to about 7% at the end of that period or 6%-something in the case of Ontario, still below where you were two years ago.

I do not think that somehow you have this little window of a month or two that you can help, and after that it is all roses. You could start now and spend money to get this economy moving and build your capital projects, and they will still be contributing to an improved economic outlook certainly over the next several years. And that is why I talked, when I first started, that this sort of 3% real is needed almost to stand still. Above that, we have to go and get the unemployment rate down. There is lots of room for the economy to move forward.

Where do you spend it? How do you spend it? You might well want to look at some of these structural changes that are occurring out there and ask the question, is there something we can do to make them work better? In other words, globalization is an issue. The free trade agreement is an issue. The GST is an issue—on and on and on. The answer is, sure, you can, and in particular the area that economists focus on often is infrastructure, for two reasons: First, it is a responsibility of government so you have your hands on that lever; second, infrastructure is something which helps the economy function better. It helps private productivity improve—not just nice to have, okay?

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Take a simple example in this province, and some of you, I am sure, are closer to this issue than I am. I do not know if anyone here realizes that Ottawa is part of the problem. There are difficulties in moving people and goods and services in and out of this province. I am told that there are increasing backlogs at most bridges, that we may well find people locating elsewhere, like in Buffalo, not because of any great virtues of the city of Buffalo, but simply to be able to provide dependable supply to customers in the US from a warehouse located there. Why is that? We have choke points. The fact is that Ontario is an island when you get right down to it. What do you do about that? You build some bloody bridges. You improve the flow of traffic or you look at ways of otherwise decongesting it.

There is also a temptation to talk about physical infrastructure—roads, sewage treatment plants—but we ought to broaden our concept of infrastructure way beyond that, and of course two of the key areas are people, in the form of education and their health, and then research and development, or capital stock that we have in terms of intellectual activity. You have touched on both of those. I think those are key areas, and areas which not only have a benefit in some broad social sense, but also benefits to the individuals, benefits to the private decision process.

If you are asking where I would put my emphasis. It would be there. I must say that I do not share your pessimism about manufacturing. We expect a substantial bounce-back in manufacturing output in 1992, 1993 and



1994, and in fact so strong that in 1994 manufacturing employment will be back over the 1989 level. That is vigorous. But you are quite right that it has been dropping for a while and certainly we get down in 1991 to a level that is—

**Mrs Sullivan:** But with substantially fewer employers.

**Mr McCracken:** No, on the employment side I even catch up, but that takes vigorous growth and we have double-digit or 7% or 8% growth for two or three years after the recession.

One other point I would like to get on the record is something which I think confuses decision-making, at the federal level certainly, and it often causes some problems with other provinces. There are two ways you can think of things: One is that if Ontario grows that hurts other areas, or you can recognize the reality that if Ontario grows it is helpful to other provinces.

There was a lot of discussion, as you may recall, over the last four or five years about how we have to slow down Toronto or how we have to slow down Ontario to somehow benefit the rest of the country. That is hogwash. If you slow down Ontario or you slow down Toronto, you slow down the rest of the country and we are, I think, amply going to be demonstrating that again.

**Mrs Sullivan:** Take this quote and circulate it around the country.

**Mr McCracken:** But the flip side of that is that if in fact you can speed up Ontario, other regions will benefit as well. Conversely, if other regions stimulate as Quebec at the moment is starting to do in a couple of areas, there will also be a positive shadow effect back into Ontario. Keep that in mind in your activities, that if you can get this economy moving vigorously that will be not just to Ontario's benefit, but to all.

**Mr Phillips:** This is good news again. I think that when you are in the middle of a storm, you cannot see the end of it, but I think every economic forecaster—the three banks, yourself, the Conference Board of Canada—have all predicted a recovery in the mid to the latter part of this calendar year. I think you say that it will come towards the end of this calendar year.

**Mr McCracken:** I think trying to pick a month—we cannot even measure it that close. At the provincial level it is hopeless.

**Mr Phillips:** Right, but we are into that sort of range that we are only months away from—

**Mr McCracken:** Well, 1992 will be a good year compared to 1991, but 1991 is a terrible year; 1990 was a very bad year. You have had two very bad years where you have given up 4% growth in 1990 and you have given up another 4% growth over potential likely in 1991. That is 8% of a gap that you opened up in two years between where you wanted to be and where you are now, so if you want to get out of that hole you have to grow 3% to 4% a year, plus somewhere pick up that 8% growth—2% a year, 3% a year. You can have very, very vigorous growth and still not run into any brick walls out there. The hope is

there, but do not let that be an excuse for saying, "Therefore, let's not do anything."

**Mr Phillips:** No, I understand that.

**Mr McCracken:** Okay, because that is a condition forecast, that you do not move in the wrong direction and that we do get a return on business investment, that business investment is not hit terribly bad, that it is helped by the GST, that they take advantage of that break, that we do get a turnaround on the US side, that we do get some sensible monitoring on fiscal policy management, and that will help you.

**Mr Phillips:** I really did not get my question out and am not sure I am going to. I will talk quickly. The ballparks answers that come out at the end of the year—this may be too difficult and if the other members do not want to hear it, fine, just in terms of—

**Mr Stockwell:** I do not want to hear it.

**Mr Phillips:** Okay. Your forecasting must take into account the impact of the GST and the free trade agreement. I do not want to get into a whole debate about good or bad, but I would like your opinion of whether for Ontario that is something that is going to be helpful to the economy.

**Mr McCracken:** No problem. There are published results on this. Let's just make it simple and go 10 years out. Think of it as a structural program. Ten years out both the goods and services tax and the free trade agreement will have been a positive thing for the Ontario economy and for the Canadian economy. It will be particularly a benefit for Ontario in both cases. Why? Because this is where most of the manufacturing is. This is the province in which most of the investment goods are made and so anything which is a positive effect for people's desired levels of investment can redound to this province, and that is the fundamental nature of both the GST and of the FTA. You do not have to believe it, but that is the result of quite a few studies that have been made on both the GST and the FTA by province, and are reproducible as opposed to the conjecture view.

Now run it back and say, "What about the first year, the second year?" By and large in both cases we get positive effects on the FTA, essentially wash effects in the case of the GST in the earlier period. The wash effects in the GST when you take it down to a provincial basis, are slightly positive for Ontario, slightly negative for some of the other regions, because again the items where the tax is coming off relatively, those things that paid a lot of manufacturer's sales tax, are more dominantly made in Ontario. The other manufactured products which are being taxed for the first time are dominantly being made in some of the other provinces, particularly Quebec and Manitoba.

**Mr Phillips:** That is with manufacturing job increases.

**Mr McCracken:** It is a small part of the total. That is the other thing I would like to leave with you, that the whole FTA effects on the province of Ontario over a 10-year period have been more than blown away in the last year or two through the kinds of swings in the economy.



at have occurred. The total impact on the provincial economy might be a level of income per person or GDP of 6% or 4%. I just mentioned We have opened up a gap of 6% in the case of manufacturing and an even larger gap over what we could have done, so the other thing, as a reminder, is to just keep your perspective, that the way we manage the macroeconomy can be a hell of a lot more important than these effects of some of these structural policies. On the other hand, getting 3% and another 1% or from the GST are all in a sense positive things to have going for you that will raise the real income levels per capita over the longer haul.

**The Vice-Chair:** I hope you liked the answer there, Mr Phillips.

**Mr Phillips:** I am just looking for the truth.

**The Vice-Chair:** I would like to thank you for appearing before the committee after the invitation we sent out to you and I think you have enlightened us quite a bit with your predictions.

**Mr McCracken:** My pleasure.

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#### ONTARIO COUNCIL OF REGENTS FOR COLLEGES OF APPLIED ARTS AND TECHNOLOGY

**The Vice-Chair:** The Ontario Council of Regents for Colleges of Applied Arts and Technology, Mr Pascal. Sorry for the time delay there, but we have been running behind all day.

**Mr Pascal:** My congratulations to you for your sustenance in terms of not only the important content, but the intimate in the room is a major challenge for you I am sure.

Thank you very much for the opportunity to spend a few moments with you. I am here to talk a little bit about a success story, to talk a little bit about lifelong learning and to talk a little bit about renewal and institutional change in post-secondary education. I wonder if I have your permission not to, at any time during my remarks, ask for money. I wonder if that is appropriate.

**Mrs Sullivan:** Refreshing.

**Mr Pascal:** It may be novel.

**Mr Phillips:** You are going to a new job, though, on Monday, are you not?

**Mr Pascal:** On Friday, I am told, so I do not know how to spell swan song, but I am very pleased to talk a little bit about the colleges. If it is okay, I would really rather talk more philosophically than financially, because I see that as an important mission.

The first question I would like to ask—and I wonder procedurally, whether it is okay for me to ask questions of the committee—with your permission, how many members have been in an Ontario community college for more than an hour?

**The Vice-Chair:** Studying or just touring?

**Mr Pascal:** In conclusion, I want to thank the committee for—perhaps I do not need to continue. A picture and an experience of an hour or more is certainly worth a couple of thousand words.

The colleges over the first 25 years of their history have indeed been a success story, but it has been a success story that is not told as often as it needs to be. The colleges have been so busy responding to requests from so many different clients that they have had very little time to bask or even time to beg. If one wants to find out about the success of the colleges, one needs only to ask the thousands of graduates, both full and part-time. One could simply ask the experienced worker who is taking a robotics retraining course for a more secure future or one could talk to the owners of a mom-and-pop, family-run hotel or motel who need in-service training to remain competitive, or with their children who will take over the business over the next several years with the self-confidence typical of a graduate of one of our tourism and hospitality programs.

The Ontario colleges over their first 25 years have been both efficient and flexible in serving a very diverse group of clients: the chronically unemployed youth lacking successful work experience, single mothers who wish to become tool and die makers or computer-aided design technicians, and young men who wish to pursue a career in nursing.

When the Ministry of Labour wants its occupational health and safety inspectors trained it turns to one of our colleges. When the Ministry of Natural Resources wants the fish in our ponds and lakes to be mercury tested it turns to our natural resource experts in our colleges. When Science North was established, it was our technology experts from a local college who provided the upfront leadership and training to enable that enterprise to get off to a successful start. When the young and experienced with major special needs and a variety of handicaps present themselves, the colleges, all 23, seemed to have responded quite ably.

You all have received a summary of the Vision 2000 document. I did not, through the clerk, send you the complete report, although it is a user-friendly report that is short enough and easy enough to read that I commend the full report to you and would be pleased to provide members with the complete report. But more important than the 40 recommendations that you have noted in that report is the process itself. The process was the most important part of the product. It was an experiment in collaborative policy. When I use the word "collaborative," I am talking about shared power. I am talking about a process of inclusion in terms of involvement of all the stakeholders within the college system, together with our external stakeholders, and a process which included, as members of the committee know, a political inclusion in terms of members of all three parties through one interview process or another.

As a result of it, we have some new directions for the colleges which suggest again that the colleges are willing to not just ask for financial support, but simply the moral support required to get on with institutional renewal and institutional change. The colleges in Ontario and my college colleagues, the 15,000 individuals who work within the colleges, the 23 college presidents, the leaders of OPSEU, our provincial union, and so many other stakeholders are prepared to engage in a process of renewal



because they all own the recommendations that you can read very easily in the draft summary.

There is a preparedness to do the right thing for the sake of Ontario's citizens in the name of taking lifelong learning, a phrase which shows up in the speeches of educators and others. That phrase has to become a tangible reality for so many Ontarians.

The directions that you have noted I will summarize very simply as the need for quality to be assured through province-wide standards, a major broadening of the curriculum so that our graduates are not only gainfully employed, but that successful employment becomes successful employability over the lifetime of the college system's graduates.

The college system has done a superb job with so many, but for so many the open door has been a revolving door. Our level of attrition is unacceptable. The amount of accessibility that we have enjoyed we think has been superb. The stakeholders in the system with whom we shared the Vision 2000 process tell us that the colleges need to be more accessible, and for those who come in, we have to ensure that they have reasonable opportunities for success, and for so many that has not been the case.

Finally, I notice that you have had discussions today with my colleagues from other parts of the education panel. You have talked to leaders from the school systems. You have talked to my friends and colleagues from the university system. My guess and my hope is that you have heard their interest in ensuring that our educational system becomes a seamless opportunity for lifelong learning. Right now there are so many systemic barriers in the way of having lifelong learning become that tangible reality to which I referred. The Vision 2000 report talks about the need for very strong linkages between the schools and the colleges and some enabling mechanisms to bring that about.

With respect to our post-secondary system, it is surprising to me, after 25 years, the isolationism that both sides of the post-secondary fence have enjoyed, if I can use that rather bizarre expression to describe it. That simply has to be part of the past. We have to ensure that in this province, a province where we talk often of developing our human resources, there are no systemic barriers to achieving full and equal credit for what people have done in learning institutions and in life's experience. The Vision 2000 report talks about methodologies for ensuring that happens.

My guess is, having looked at your schedule today, that you may have heard differences of opinion about topics such as university tuition from groups representing universities. Let me urge upon everyone who studies the issues of tuition and other issues to look at these issues in a holistic and integrated way, that you cannot look at university tuition and questions of accessibility without looking at what happens to college graduates in terms of being labour-market ready, in terms of their ability to go on to university and get full credit for what they have done.

To look at tuition policy in a narrow yes or no fashion, without looking at the colleges in relation to the universi-

ties and the enabling effect that colleges can have in terms of accessibility, I think would be a mistake.

**1510**

I am sure, through your smiles and response to supposition, that you may have had differences of opinion from the same sector on issues like that, that there are ways of looking at issues such as tuition in a broader and more integrated fashion. That is one of the beauties of Vision 2000. All the stakeholders are part of it. There are directions in that report about what might happen with the issue of tuition.

In the name of lifelong learning, I would simply want to table at least my personal definition of it, because it is a phrase that is used a lot, as I indicated. I am not sure I ever pause enough to define what it is we mean by those things. For me, it means learning throughout one's life in order to accrue the positive intellectual, emotional, spiritual, financial and physical benefits which arise from an individual's constant quest for personal improvement. A learning society is one in which all of its members have access to the developmental benefits of lifelong learning and can look forward to the collective effects of a future which is more fulfilling, through greater justice, equity, health, safety and comfort.

In closing, I want to read from the letter I have written to my son. My guess is, during your discussions with other stakeholder groups, that you often have people come and read letters to members of their family. Here is another example. Last summer I was asked to give a keynote address at a conference of post-secondary educational leaders in San Francisco. At the time, I had hoped that my son would be able to join me in one of our annual Blue Jay following quests. We had in mind a coastal trip following my remarks. I was feeling rather blue the evening before my remarks that Jesse was unable to join me as a result of his 11th-hour decision to go to a leadership camp. I was asked to address this conference with respect to issues of leadership and education, so I wrote a letter to Jesse which I decided to make an open letter. It was the keynote that I gave on that occasion. I am waiting for an opportunity to give the one I did not give because I spent quite a bit of time on it. It had some interesting remarks that I will save for another time.

In this letter, I said a few of the following things. I do not burden you with the complete letter.

"Jesse, by the year 2000 you will have just celebrated your 27th birthday. Scary thought. The life decisions that you and your friends and your four billion peers around the world make between now and the turn of the century will determine whether the new millennium marks a new beginning with a chance or the beginning of the end of your dreams and mine. Don't worry. A few of my educational friends will assist, especially those involved with community colleges as we know them in North America.

"And Jesse, I don't know when I have been prouder of a parent than when you and I visited Durham College a few months ago in order for you to check out their student administration program. It was the first time that I had entered a college as a parent. It was a great day for me, I hope it was for you, but I don't think I told you I



oving the experience was for me. Suddenly, our Vision 2000 project on the future of the community college system in Ontario took on a deeper, more personal meaning for me. One of my own kids was going to a community college. It felt great. My commitment to community college education was genuine. Did I have doubts? Not really, but feeling good in the gut was very comforting.

"You know, Jess, going to a community college is more than just entering a system of education. It's more like joining a movement, at least that's the way I would like you to see it. It's a progressive movement designed to put out beliefs about equity and fairness, to promote a lifetime of learning for all, to realize accessibility as an opportunity to succeed in reaching high standards.

"Education generally has an essential role to play in the development of a world which is peaceful, environmentally sound, equitable and economically viable. Education should help balance individual and community needs and foster personal initiative and co-operation within human relationships based on mutual respect.

"Education, in particular community college education, should ensure that people have the opportunity to develop the skills and knowledge they need to adapt to and make constructive contributions to the world in which they live. Education should enhance students' choices and opportunities and promote the development of individual potential. It should also assist learners in developing their commitment to social responsibility and care for the communities in which they live, and respect for cultural integrity and self-determination of those whose language and traditions may be different from their own.

"At the heart of this, Jesse, is the notion that leadership is a very collaborative process. Collaboration means sharing power and it means living the equity message.

"Jess, I know you've often discussed with me what you'll want to do when you grow up. There are exciting possibilities for you because you are blessed with many natural talents. But I am more concerned with what you will be, not just what you will do. Participating in the community college movement as a student should help you on both counts. Because I am a bit older, I have a clearer sense perhaps of what I would like to be if and when I ever grow up, and the community college movement we are soon to share will help in so many ways.

"Jesse, let's be less proud of what we already know and more invigorated by what we have yet to learn, because we want to be leaders. It's great to love humanity, but let's like people, finding value in their diversity of mind, experience and culture, because we're part of a movement.

"Let's learn to deal gracefully and securely with ambiguity and complexity, because we're leaders.

"As healthy, white, privileged men, let's judge our worth not by our ability to protect what we are or what we have but by a behavioural commitment to share power with those who remain unequal partners because of differences which shouldn't count when it comes to opportunities for comfort, dignity, safety, health and equality. And, Jesse, sharing power with unequal partners means giving up some power. You and I will do this because we are

trying to be leaders who will lead with ideas, not the power embedded in position or office.

"And to paraphrase JFK (or Ted Sorenson, his speechwriter)"—Mr Chair, I apologize for the American reference; the setting was San Francisco—"let's ensure our college movement is informed by committed beliefs in human dignity as a source of purpose, in human liberty as a source of action, in the human heart as a source of compassion, in the human mind as a source of our invention and our ideas."

In closing I want to say simply that Vision 2000 has an agenda. It is an agenda that is owned because of the inclusive nature of the process. The college system is part of an educational panel that needs to be more integrated, more holistic in how it deals with some of the Vision statements arising from my public remarks to Jesse. Everyone who has a stake in our future, including members of your committee, needs to do everything he can and we can to develop a deeper understanding of what colleges have meant to the province of Ontario and, more importantly, what colleges can mean to realizing what I alluded to before; that is, a healthier and more comfortable, more equitable and just future. Thank you very much.

**Mr Sutherland:** I must say I do congratulate the former Minister of Colleges and Universities for the initiative with Vision 2000. It is a terrific document.

I just want to pick up on the articulation process and get a real sense from you as to how you feel that process is working in terms of transferability of credits from colleges to universities. I was wondering if you could also comment on what the ability is to move from college to college, because I know in the university system it is very poor. I wanted to get a sense of what it is in the college system.

**Mr Pascal:** Unfortunately, Mr Sutherland, as to the ability to move from institution to institution on the university side and the college side, I will tell you, through some interviews we did in Vision 2000, in some cases it is difficult to move from campus to campus within a large institution and get full credit for what you are doing in the same program. We have to ensure that when people have invested time and energy and financial resources in formal learning experiences, they get full credit for what they have done from institution to institution within the college side of the fence and certainly within the universities.

At present we have about 5% of the applicants to colleges coming from universities and about 2% of our graduates are going on to university from college. Many of the deals that students can get are based on their assertiveness. We should be designing equity based on some principles and procedures rather than whether someone is an assertive consumer or not. The mood of the receiving registrar will determine whether or not chemistry 101 at a particular university gets 0.63 credits at the sending institution, and vice versa. The same kind of thing does exist within our college system.

The good news is that in the last couple of years we do now have extant within the system about 72 degree-completion agreements between a college program



and a university program, where the graduates of an early childhood education program at college A can go there and go on to university B and receive full credit and take one more year and get a degree, and vice versa. The program goes in both directions.

1520

But we still have thousands and thousands of students who are not able to mix and match freely around the province. I will tell you one story to illustrate, I think, the intent of your question. A graduate from Fanshawe College in early childhood education—Fanshawe is in London—upon graduation wanted to return to her home town of Windsor, where St Clair College has a degree-completion arrangement with early childhood education at the University of Windsor. She asked if she could go immediately to the University of Windsor and avail herself of the same principles, and she was told: "We have a deal with St Clair but not with Fanshawe. You have to start over."

Let me simply say that while there is the beginning of some successful co-operation between our universities and our colleges, we have a long, long way to go until the issue of equitable access and mixing and matching the fine resources in both institutions is a reality.

**Mr Fletcher:** I was just going to comment on Vision 2000, and it was nice to see that my friend Doug Auld was at the top of the list when it came to some of the contributors. I do believe it is a very good document. It is a good document with a lot of good input. Where is it going? I guess it is along the same lines as what Kimble was asking. Where have we gone?

A lot of the recommendations, in fact all of the recommendations, are that the Ministry of Colleges and Universities "should," the college system "should," the provincial government "should." There is not a "will." There is not a commitment from any part of government or anyone else that they want to do something in there. I know it is just a vision.

**Mr Pascal:** Obviously we could not use "will," because we were simply—I should not say "simply." We were about 2,500 stakeholders who got together and got to "yes" with respect to major directions and a vision. But the good news is, because it was inclusive, both politically and in terms of our colleagues in ministries, not just MCU but in the Ministry of Skills Development and members of other government ministries, there is broad ownership, I believe, at this time in terms of the will that is required.

I cannot say the following will happen on some dimensions, because it is my minister. I have a minister. I report to Dr Allen, and I am very comfortable with the kind of research that he and his ministry have done in terms of what should or should not happen and when these things should happen. But while I am optimistic that you will all see tangible evidence that the will is there, the good news is that there are a lot of recommendations in Vision 2000 that have already given impetus for further dialogue and for action independent of what government decides to do. For example, there are already some very informal discussions at a very high level between college leaders and university leaders to talk about the concept of the institute

without walls, the institute without walls being a no bricks-and-mortar opportunity to ensure that there is going to be that equity. Whether university X or Y decides to look at the future or a rear-view mirror would matter not.

In that context there is an awful lot of very constructive dialogue taking place. Your friend and colleague Doug Auld is among those who are involved in that. Because of the process, I am quite confident that the agenda is owned by all. I am comfortable that the government is very comfortable with the directions, and what remains I think is the manner in which things will be implemented, and the timing. But that is not my job, to make those announcements or to even handicap when they might be made.

**Mr Fletcher:** One supplementary: I notice the other part, as far as this document is concerned—I mean, ownership was taken over by the Ministry of Colleges and Universities, but there is never a dollar figure, a numerical figure, put to some of the funding or some of the programs. What does it cost, the long-term costs of what plan to implement? I know it is difficult to do that in a crystal ball sort of way, but we do have to look at the reality of the money we are working with.

**Mr Pascal:** That is a very important question and obviously an apt question coming from this committee in particular, and that is why it is easy for me today to cease and desist from asking for money and from encouraging government to set aside X dollars for Vision 2000. There is a very strong tendency, when we are trying to craft public policy around the cornerstone of doing the right thing, to think about the manner in which—you know, Rome burning right now, etc, and we wanted to ensure that in spite of the fact that there are colleges right now which are well constrained by resources, we freed ourselves of asking questions about financing division. We wanted to make sure that this document, this process, was clearly setting out the direction of the system and the government in the proper direction in terms of our colleges and education generally.

With all that said, however, your question remains an important one, and right now there is a process of determining priorities in terms of direction and costs. This is more a function, I think, of the bureaucracy in the Ministry of Colleges and Universities in this instance.

What is important to say, however, is that many of the recommendations do not require large amounts of money. I am glad Mr Fletcher raised the question. Developing a mechanism for ensuring province-wide standards will cost a lot of money. It will cost a very small amount of money, if anything, in terms of redirecting funds.

The lifelong learning implications of Mr Sutherland's question will not require money. What is required is educational leaders on both sides of the post-secondary fence begin looking at the future in new ways in terms of commitment to lifelong learning. So many of the key recommendations do not require infusion of large amounts of money. Some of them do. I do not want to mislead you some of them do.

**Mr Phillips:** That may have answered my question, which is, we heard this morning quite an impassioned plea from the universities and I do not want the colleges



shortchanged. It may be from the next group that is coming here that we may hear the financial requirements. You have brought the strategic framework.

Just while I have the floor, I wish you the best of luck on the new job, by the way. It is a fascinating and important job.

**Mr Pascal:** Thank you for that and, hopefully, the collaboration that I have alluded to will stand us all in good stead in terms of other things ahead, both for me and for you.

**Mr Chair:** I am not unaware of the fact that I am being followed by Mr Trump, who represents the council of presidents through the Association of Colleges of Applied Arts and Technology. He and I do have each other's phone numbers on our speed dial and, as a result, my guess is he may provide Mr Phillips—

**Mr Phillips:** Is this a tag team?

**Mr Pascal:** No, it is not terribly well rehearsed. We are not as good at rehearsing some of these things as our university brothers and sisters are, but my guess is my colleague Mr Trump will probably get closer to, I think, the kind of tangible expectations that members of the committee may have, and you should hear that message, but I thought my plea today ought to be a bit vision-directed and philosophical.

I do believe, in answer to the question of Mr Fletcher, that much of what has to happen will require simply will and vision rather than money. However, Mr Trump may allude to the fact that although 2,500 colleagues and 15,000 others are very enthusiastic about the directions of Vision 2000, maybe they need to be a little less numb with respect to the current state of affairs to proceed down the path of renewal.

But what is important is that commitment to change is very much there on the college side. I will not allude to whether or not my colleagues on the university side are committed to doing many new things in many new directions. I remain a university professor as well, at least for the next year and a half days, and so I have a tremendous respect for what our universities do for society at large.

My plea is that we learn how to do it together more effectively and that the social and emotional disease that I refer to as hardening of the categories in our province, where there is too much that belongs to person X or person Y or group A or group B, that is something we deal with in new ways, because I cannot think of a major social or economic issue facing the province of Ontario that can be pursued meaningfully without stakeholder groups coming together. In the context of which I speak, of course, I am talking about educational leaders from the schools and universities and of course, last but not least, from Ontario's colleges.

**The Chair:** Thank you for your presentation.

#### ASSOCIATION OF COLLEGES OF APPLIED ARTS AND TECHNOLOGY

**The Chair:** Our next presentation is by Chris Trump from the Association of Colleges of Applied Arts and Technology. If anybody can tell us where the state of the art is going, it should be you.

**Mr Trump:** Let us try. I do not think I can get you back on schedule, but I will try.

**The Chair:** Just as a personal aside, I was present when you announced the experiment in a spaceship, the bread or yeast experiment. What happened to that?

**Mr Trump:** The bread in space? Sadly, the explosion of the shuttle intervened and the Getaway Special program of NASA is in as dire a strait as some other elements of the program. We have done the right things for the participants, I believe, but having been away from Spar now for a year and a half, I cannot say whether they invited them, as I suggested, to a shuttle launch to at the least partake a little bit in the space program. I believe the Ontario Science Centre had an exhibit of how the oven would have worked, but at least in this century it is not going up.

**The Chair:** It was a fascinating afternoon to be there when that was announced.

**Mr Trump:** Yes, it was great fun. I often believe that the space program gives the chance to a lot of people who are not scientists and technicians to participate in something that has bigger meaning.

Anyway, in my new role as executive director of the colleges of applied arts and technology of Ontario, I want to present to you—I will leave you a two-pager, but I would rather just speak to it—picking up where Charles left off on Vision 2000.

I was privileged to be part of the steering committee, which did indeed include members from the academic community, secondary, university, colleges, business and industry, president of IBM, labour, Jim Turk, Ontario Federation of Labour. It was an interesting series of sessions through some 18 months. If it is not quite as visionary as we would like, that is what you get when you have committees at work. If you want a visionary, send someone up on a mountain for 40 days and you will get an even more unworkable plan.

Vision 2000 has 40 recommendations. The presidents chose three of them to address: improved access, increased success in programs and academic mobility, which has a great deal to do with standards and accreditation. Three Mondays ago, we had the most interesting session ever in the history of the colleges. Around the table at the association gathered all of the constituent groups: full-time and part-time students, folks from community industrial training committees, the Ontario Public Service Employees Union, faculty, staff, administrators, presidents and governors.

The issue was, what will we tell the minister, Richard Allen, is our intention for the colleges over the next five years in terms of what we want to do? In other words, putting not only meaning and substance to the vision with milestones that are measurable, but also the costs that are associated with it.

I am pleased to report that at the end of that session we had agreement. The students felt that the physical plant at the colleges was abysmal and that a great deal more should be spent on capital improvement. The present administrative staff felt that the principal issue was how badly the administrators were treated by the college administration



presidents. Fair game. I hope they tell that to Minister Allen.

But the essentials, improved access, that is, running programs in the evening that are the mirror image of those in the days, recognizing the fact that you have working mothers who need their children cared for while they are in school, all of these are things that can be quantified. There is a backlog at Cambrian College of 200 special-needs applicants who cannot be accommodated because there is no room.

Suppose we start with each college and begin to say, "What is your backlog and over the next years how will we open the doors wider?" Once you have said that, then you come to the point of, "Well, it's one thing to admit you, but suppose you flounder, find you are in over your head and quit?" The attrition rate in some technology programs is 40%. We should also establish milestones that improve retention, that is, reduce the attrition rate. This will require improved counselling, remedial instruction, and again that is a long-term objective to improve the role of the colleges.

The final one—and Charles gave the example of the early childhood education student from Fanshawe who went to Windsor and the University of Windsor said: "We have an articulation program with St Clair. You don't count." I would not necessarily knock the University of Windsor, because the colleges are woefully deficient in the area of standards and accreditation. I was pleased that when Premier Bob Rae spoke to the presidents a week after the election, at which point he said he was no more surprised than they were that he was there, he mentioned standards twice in his 20-minute remarks. I was pleased to hear that.

I was pleased to hear that OPSEU has that as number one on its list. We must have standards, because what in the world is your education worth if it cannot be measured and found to be in congruence at least within the college? We have the example of one major college which shall remain nameless that has five early childhood education programs and there is no interchangeability between them.

We have the example of a Loyalist student who after her first year went to Humber and was told, "Go back to the point of beginning in early childhood education." Fortunately Doug Auld and Squee Gordon talked about it and the case was straightened out, but what kind of a system makes a presidential case out of the efforts of an individual to move from one institution to another, to say nothing of moving from a college to a university or, God forbid, moving to another province?

We are working on that. It is something that requires a great deal of leadership within the colleges, because there are many who just love to carry on the way they are doing, taking refuge in the notion, "We are community colleges." Right, but in Ontario they are first and foremost colleges of applied arts and technology, often programs that should, in terms of outcomes, have individuals, men and women, who are competitive in a global marketplace. So that is the long-range plan, which we hope Monday next to present to Minister Allen in a two-hour session.

For the immediate, I have to tell you our backs are to the wall. I know the universities have told you this too and have documented it in greater degree than we have, because the Council of Ontario Universities has a 26-person staff. We have a four-person staff, but we try. Thanks to some very serious work done by the folks at Georgian College under the aegis of Doug Light, we have determined that next year a 12% increase in the funding base from the Ministry of Colleges and Universities is required to accommodate the 5% enrolment increase, the first in five years, that we endured this fall.

The retention rates which we have experienced now where people are no longer leaving but staying on, we give us a base increase, we anticipate, next fall of 3% and an anticipated increase of yet another 5%, if not more. That will permit us to offer the level of programs that we have at the moment. Should the increase slip to 10%, we will have to tighten belts, which means that things that we are doing now will have to be truncated.

Should the allotments slip below 10%, then the word is fiscally mandated enrolment caps. We will have to do it on a selective basis, particularly in Metropolitan colleges—I am talking about Toronto, which is where 60% of the college enrolment is in the province. It will have to be instituted. That is the unvarnished exposition. It is documented. I have the two-pager to leave with you. Should you want the documentation, I will be delighted to bring it, but as I wrote to the Treasurer, I did not want to belabour the point with still more reams of paper. I am sure you have been buried in paper a lot.

1540

To close on a brighter note, I keep reading all the time of what is wrong with Canada, what is wrong with Ontario. I would like to submit that there are things that do not cost a lot of money, as Charles said, that give great hope for the future.

I am speaking of a movement and Charles spoke of a movement, the community college movement. This one is called Skills Canada. Its genesis was at Georgian College in Barrie, a small town in Ontario. A dynamic dean of technology there, William Leslie, said: "What if we young people in high schools and in colleges, regardless of their vocational and professional aspirations, and brought them together in clubs? Work hard, play hard, pursue what it is you are interested in, have conferences."

I was at one that they hosted in Bolton. The vice-president of Dofasco was there. The young people introduced him and thanked him; the vice-president of the SkyDome did the same thing. It develops communication skills at the same time. There are now 2,000 enrolled, 100 high schools and 9 colleges. We want to make that all 23 colleges before this year is out. The objective by 1995 is 50,000 youngsters throughout Canada, something that started here in Ontario.

What gives me the greatest hope is that for the first time ever last summer, an Ontario team which represented Canada, there being only Ontarians aboard, of 37 young people went to Tulsa for the North American Summer Olympics in competition with 4,000 Americans. Only our state garnered more medals than Ontario and that was



California. We had a bronze, three silvers and two golds. The gold medals were won respectively by a Fanshawe student and a Milton high school student. The Fanshawe student was an apprentice in precision machining, the high school student in the culinary arts.

This to me is one way in which the colleges can make a mark, to put the imprimatur of dignity and the worth of all things that human beings do. If we move in the areas of access, success in programs, standards in accreditation, we will come closer by the turn of the century to having that seamless web that Charles spoke about of life-long learning or long-term training.

Anyway, end of speech. I brought copies of the article. The Financial Post has written a little bit on Skills Canada, and here is our two-pager on our needs. I will be delighted to leave that with you.

**Mrs Sullivan:** Your presentation was very articulate without a note, and we appreciate too the length of time that it took so that we can all have an opportunity to ask questions of you.

I am interested in your funding base increase request, 2%. I think that would probably add under \$1 million to our budget. Is that right?

**Mr Trump:** It is a bit more than that. The funding is in the order of \$750 million, so you are looking at a bit more than \$1 million. In fact, \$1 million is what, little more than 1%?

**Mrs Sullivan:** Ten million.

**Mr Trump:** Of \$750 million, you are looking at \$75 million just at 10%.

**Mrs Sullivan:** Good. Thank you. I just do not have those figures.

**Mr Trump:** It is almost like a Monopoly game when you get to that ethereal reach.

**Mrs Sullivan:** In that funding base, have you included increased emphasis on the access programs? I have Sheridan College in my riding. There has been great emphasis, for instance, on expanding night and after-work opportunities for people who are moving from one career to another or from one business to another, one kind of work to another, who have other pressures than the 19-year-old student has, whether family pressures or credit crunch pressures. What of your funding base would include increased emphasis on attracting the older student?

**Mr Trump:** I could not answer that at the moment. In other words, what we are doing literally is coming here at the eleventh and a half hour, inasmuch as the allotments normally are announced in November. What we are really steering towards, after the emergency of 1992, which is a crunch year—as I said, our backs are to the wall—is the minister's commitment.

The question was asked, "What in fact are you doing to put Vision 2000 into place?" Well, it cannot be done by just talking about it or getting on a soap box. It needs commitment from on high, saying: "You have made sense. Now begin to position some milestones and we will measure you on how you reach them." At Seneca College, they have a dean assigned to educational effectiveness. Tony

Tilly's sole role is to open wider the doors and ensure that those admitted are accommodated in a way that ensures success in the programs. Whether it is at Sioux College or whether it is at Mohawk College, where George Lueddeke is in charge of the program, they are just champing at the bit: "Give us the go-ahead" and "How can we expand?"

But at the moment, their resources are finite and it is really a combination I think of your own efforts, through the minister—I might add too that 51% of the colleges' activities are non-Ministry of Colleges and Universities. That is more than half at this juncture. So we are also working with Labour and Employment and Immigration. I just learned the other day that Marion Boyd's ministry, Education, gives \$100 million to the colleges. So when you get through an aggregate, you have quite a purse to fund the activities of the colleges.

By identifying this area in particular, the access, the success in programs, we believe we have something that can say, "We are moving from point A to point B and beyond."

**Mrs Sullivan:** You talked about some of the links between the high schools and colleges, and the major question of delivery of some of the technical and technological training has been a question in the past. To a certain extent, it was addressed in the Vision 2000 report. Have the community colleges as a group talked about the question of student assistance programs to ensure that the access is not limited to certain socioeconomic levels?

**Mr Trump:** I would hate to be facile, but I think it is almost a given. I think the colleges are the institutions that do have their doors open by far wider.

**Mrs Sullivan:** But in terms, for instance, of the Ontario student assistance plan, the loan and grants programs, do the colleges have a position on where they should go, how those programs should change, what new funding would be required for them?

**Mr Trump:** If they have, I have not heard about it. It is almost a case of when it does not show up at the association, at the council of presidents, it means it is in reasonably good shape. We had a bit of a kerfuffle last year because they moved the whole operation from Toronto to Thunder Bay, but as we have discovered now, it is working even better after this year of ripples than it was previously.

I would say, just as a given, that our students are accommodated at least as well as university students in terms of where is the wherewithal: a combination of loan programs, part-time work, scheduling to fit the needs of the student.

**Mr Sutherland:** I was wondering if you could give a brief comment on how colleges are handling the issue of the learning-disabled. I know I had one constituent approach me about his son, who is very capable—I think he might have been in an apprenticeship or technical program—who could do the actual work technically and pass it, but had trouble doing the written work because he was learning-disabled. There was really no one there, no counselling or tutorial support to help that person through. He himself can be a very competent individual, doing his



specific tasks, but cannot get the certificate to go into the employment area.

**Mr Trump:** I think that too is an area that we have no statistics on at the moment. I get little anecdotal reports of, "If we could only, then we could help someone like that." I know Fleming College in Peterborough has instituted a program where, within the first week of enrolment, every student has a counselling session. That just psychologically sets the stage to say, "We won't let you sink."

But the ideal in my view, and I look to the States for that, is what Miami-Dade does—85,000 students in the college system down there around Miami and every one of them tracked. You cannot hiccup or get the flu without it showing up, and when the water level gets to chin-high, you are in for a counselling session with a remedial teacher assigned to you. A good move on the part of Florida, because if you think it is expensive to invest in that, look at the cost later on when you have a human being who is not employed.

We have much to do and when we say, "Success in programs," it rolls off the tongue easily. Let's get each college to say, "What in fact will you do?," presuming, and I am presuming, that the minister, Mr Allen, will say, "These three areas, go for it," and we will then give the assignment to each college, "Let's see what you can do, learn from those who have already done more than others and put a program into place." It is probably more a promise than it is real at the moment.

1550

#### ONTARIO PUBLIC SCHOOL TEACHERS' FEDERATION

**The Vice-Chair:** Next is the Ontario Public School Teachers' Federation. We have Mr Martin, president. Would you mind introducing your colleague.

**Mr Martin:** It is a pleasure to be here and appearing before you today. I am Bill Martin, president of the Ontario Public School Teachers' Federation. With me is Gene Lewis, the first vice-president, and there is a possibility that our general secretary, David Lennox, will also be with us this afternoon.

As most of you probably know, OPSTF is one of the five affiliates of the Ontario Teachers' Federation. We have a membership of 23,000 members comprised of statutory and voluntary teachers, occasional teachers and educational support personnel. In the brief we would like to discuss with you this afternoon, there are three major areas that we are looking into: the level of provincial support, the inadequacies of elementary grants and the need to stabilize child care in the province of Ontario.

We understand the realities of a recession. We believe, however, that an investment in elementary education and child care services should be an integral part of the government strategy for dealing with the recession and for the fostering of economic recovery.

The first area I would like to address is the provincial share of educational finance for elementary and secondary schools. Pages 2 to 4 of our brief review the current status of the provincial share of educational costs and outline the reasons why it is important to address the increasing bur-

den of education costs born by the property taxpayer. While the governing party is on record for its commitment to restoring the provincial share to 60% and the Minister of Education has ensured us her ministry is prepared to review the full structure of financing education, these long-term commitments and The Treasurer must now take interim steps to address the issue.

I would ask you to turn to the graph on page 3 in your brief. It clearly shows that while the actual provincial expenditures have increased each year, the provincial share of educational costs has consistently declined since 1970 when provincial revenues covered 61.3% of the total cost of elementary and secondary education. As you can see from the graph, the provincial funding reached its lowest point—

**The Vice-Chair:** Could you just hold on for a second. We are just trying to find your brief.

**Mr Martin:** We are on page 3. The figure of 61.3% refers to the public and separate school funding. If we take that away and just look at public school funding, at public school boards of education, it is even more alarming, currently being funded at less than 30%. The Treasurer has not announced transfer payments to school boards and in today's Globe and Mail the Minister of Education was quoted as saying that figures would not be released until mid-February. It is impossible for boards, as a result, to speculate to what extent the municipalities will have to once again raise property taxes to pay for educational costs.

The bottom line is this: Per-pupil expenditure ceilings in both the elementary and secondary panels must be increased to better reflect the real costs of education.

On page 4 the submission refers specifically to the elementary situation. Particular attention must be paid to eliminating the inequities in funding between elementary and secondary panels, a position supported by the Ontario New Democratic Party policy paper going to its upcoming convention. I quote from the paper, A New Democratic Party Philosophy of Elementary and Secondary Education. It is on page 4.

"The early years of every child's education are particularly profoundly important and an educational system designed to meet the needs of New Democrats would give both recognition to and adequate funding for this reality. As just one element of providing funding to school boards for primary education, we would eliminate the inequitable differences that currently exist between per-pupil grants for elementary and secondary panels."

That is taken from this document. I do not know if you have it but if you have not, we can get it for you.

**Mr Phillips:** You should have that.

**Mrs Sullivan:** Some do, some don't.

**Mr Martin:** If you turn to page 7, the table provides the history of the gap since 1970. If you look at the information on the graph you can see very quickly that applying slightly higher percentage increases will not address the current problem.

In December a memorandum was sent to the director of education. In the memorandum the Ministry



education advised that the 1990 grant ceilings would be increased by \$50 for elementary pupils and \$25 for the secondary pupils.

The memorandum stated—see page 8—“The purpose of this adjustment is to improve equity in the grants plan and reduce the gap in funding between elementary and secondary levels. The Ministry of Education is committed to high quality education with particular emphasis on the early school years.”

This approach to the grants plan is a welcome change in government policy and we would urge the minister to further address the equity issue when the general legislative grants for school boards are determined later this year.

When you look at the gap, back to the figures on page 6, currently existing at \$930, that is the difference in funding for education allotted to a child at an elementary level and to the child at a secondary level. We believe the only way that gap will be reduced is by putting additional monies, significant dollars, at the elementary level in order to bring the funding closer together.

Class size reduction is also supported by the education policy document that will be presented to the NDP convention. It states this on class sizes:

“Smaller class sizes are particularly important in the early childhood years...Smaller class sizes obviously offer the advantage of providing more individual attention and adequate supervision. They also facilitate recognition of learning problems, and make it easier for children with mental or physical disabilities or those with behavioural problems to receive an equal education.”

Over the years, we do not believe that elementary funding has reflected the changes in elementary education. We have been at this table for a number of years and each time we were told that we had to go out and negotiate changes in our collective agreements. Well, the elementary teachers are now better qualified. The average years of experience has increased. The teacher-pupil ratio has been lowered and preparation time has been increased throughout the province of Ontario. But even with these increases, the grants have not reflected these changes. The gap continues to grow.

The additional funding would allow for smaller class sizes. It would enable elementary schools to staff resource libraries. In the late 1970s, we heard of Partners in Action as a resource for activity-based learning. Unfortunately we do not have the resources to put resource teachers in libraries in our schools in Ontario, yet it would allow for more important, specialized teachers in physical education, music, art and other technical studies. It would also provide funding for adequate textbooks and learning materials and would provide guidance personnel, a much-needed resource in our elementary schools.

600

If you look directly at the class sizes, on page 9, an emphasis on elementary education should be part of this government's attempt to address the needs of those most disadvantaged by the recession. In a brief presented last month to the House of Commons subcommittee on poverty, the Canadian Teachers' Federation stated:

“We were able to identify health, learning and behavioural related characteristics associated with child poverty, both from the researcher's perspective and from the experience of classroom teachers. A survey of projects in Canada and the US demonstrates, again, that early and sustained interventions with children will provide greater returns in human as well as economic terms.”

The recent comprehensive provincial review of children's services, *Children First*, also points clearly to the need for early identification of children's problems: “We now know a great deal more than we once did about the conditions that imperil healthy child development. We also know that problems that occur in childhood can impair adult life and that the beginnings of many lifelong problems lie in childhood.”

Early identification of children's learning and emotional problems is also important in terms of cost-effectiveness. It is a lot less expensive to remedy these problems during the early school years than to wait until the high school years.

The final area I will speak to is the support for child care services. Child care is an important economic and social support to working families. Child care becomes even more important during a recession when families are stressed and when a second income is even more crucial.

Pages 10 to 12 outline some of the key problems facing child care programs and the need for immediate and long-term measures to deal with them.

As a founding member of the Ontario Coalition for Better Child Care, we support the coalition's new funding proposal and its call for additional child care subsidies and program spaces. The proposal for funding is briefly outlined on page 11 of our submission.

To conclude, OPSTF recognizes that the province is in the midst of a recession and that the Treasurer faces some difficult decisions. We would urge the government not to apply too narrowly its mandate to assist those individuals most vulnerable to the effects of an economic downturn. An elementary school system which is sufficiently staffed and supported to provide for early identification and early remedial attention is vital for responding to the needs of our most vulnerable children and for long-term investment of our human resources and future workforce.

Likewise, it would be shortsighted not to move to stabilize and expand existing child care services so as to provide an essential support to working families and quality care for young children.

We leave your committee with four recommendations which are found on page 13:

1. That the Ontario government's strategy for addressing the needs of those citizens most disadvantaged by the current recession include significantly increasing support for elementary education and child care services;
2. That the elementary and secondary per-pupil expenditure ceilings be increased so as to ensure an improvement in the provincial share of education costs;
3. That in fulfilling the government's commitment to improve the provincial share of education costs, the Treasurer provide sufficient funds to the Ministry of Education so as to reduce the differential in per-pupil grants between



the elementary and secondary panel and maintain the current class size reduction in grades 1 and 2;

4. That the Treasurer provide funding to the Ministry of Community and Social Services to create an additional 10,000 child care subsidies and an additional 10,000 child care spaces in the province.

I will take any questions.

**Mr Stockwell:** Briefly, they are going to give you the same song and dance or dog-and-pony show they have given everybody: "we are in tough times through a recession" and so on and so forth. They are probably not going to tell you that in this party's Agenda for People, which you quoted in here, they admitted in August that we were in a recession. They knew full well we were in a recession, yet they still made these promises.

The question I have which will cut right to the heart of the issues is—which I find almost disgraceful—that they would make the comment that they are going to return funding to 60% levels, and you are talking about \$7 billion or \$8 billion, knowing full well they could not do it. Did you honestly believe that when they said it? Did you believe they were going to do it?

**Mr Martin:** I believe, in speaking with the Minister of Education, that there will be a move back towards 60%. That is something we have not heard by parties in the Ontario government for a long time. I do not believe that commitment will take place overnight. However, I would hope for and strongly encourage the release of moneys to education in the spring, that the downward trends that have continued since 1975 will be reversed and start moving at least in that direction.

**Mr Stockwell:** That is a good answer, but it was not an answer to my question. The question was, did you believe it when they said in the Agenda for People that they were going to return the funding levels to 60%? Did you believe in fact they could do that, that they are capable of that?

**Mr Martin:** I believe this government is capable of moving anywhere it wants if it sets its priorities, and I believe education is the priority that should be set.

**Mr Stockwell:** Okay, so really you thought that could be done.

**Mr Martin:** And I would hope that at the end of the five years I will be proved right.

**Mr Stockwell:** Fine and dandy. For your sake, I hope you are proved right as well. I do not think it will be, but I hope you are proved right.

The next question is, what about the makeup of the 60% and how you see that, the guidelines of exactly how much, where, and is it strictly—if I look at your figure 2, the underfunding, page 7, you talk about the gap from the 1970s. Is that where you see the increase being made up? Is it the gap that we are talking about?

**Mr Martin:** I believe the funding has to cover two areas. Obviously the number one area is the overall expenditure on education. The grant ceilings at both secondary and elementary levels are unrealistic. Boards of education are spending millions of dollars above those rates which

have been set by the government. That is number one. E also, when we are doing that, we have to address the separation of this double standard that we have in our educational systems on how much we pay for an elementary child to be educated and how much we pay for a secondary child to be educated. Yes, there is going to have to be money to reduce the gap.

**Mr Stockwell:** So you see it as a two-front attack?

**Mr Martin:** But also as the gap is being reduced there would not expect that to be at the expense of the needs of our secondary colleagues and the secondary system.

**Mr Stockwell:** Right, so you are not robbing Peter to pay Paul. It is new money.

**Mr Martin:** It is new money, and as one goes up one will hopefully climb a little higher.

**Mr Stockwell:** Good luck.

**Mr Phillips:** I think the leadership of the Ontario Teachers' Federation very much agreed with the 60% and I am personally on the hook for it, because certainly, as I have said to most education groups, I think that if there was an issue that impacted me it was education.

Certainly the teachers in my area may like me personally, but they sure did not like the fact that we would fund 60% and they had a commitment from the NDP that it would fund the 60%. I think the teachers' leadership clearly believed it and in fact passed a resolution supporting the NDP and mustered a lot of financial resources behind it, as well as helping organizationally. If there was an issue that the leadership of the educational community got behind, it was the 60%. I think the NDP was very clear on it.

My question really is, were you as surprised as I was to find that the definition the minister has for the 60% includes teachers' pensions and capital, and that the minister is planning to cap the spending on education provincially to control the 60%? It was quite a shock to me yesterday to hear that, because that was totally contrary to what I thought the commitment was. I was wondering if your organization was as surprised to hear those three things. It includes capital, it includes your pensions and there will be a cap on the per-pupil spending determined by the province.

**Mr Martin:** I will start the answer off and my colleague to my right will conclude. When we say 60%, we are talking about operating expenses of the board. We are not referring to our superannuation and we are not referring to capital expenditures by the boards, so are we surprised that the minister mentioned that in her statement? I guess you could say yes, and we would have to disagree with her statement. If we go back to 1975, when the level was 60%, I believe—and I will turn to David—the "operating" was basically operating expenses.

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**Mr Phillips:** No capital, no pension.

**Mr Martin:** No capital, no pension. So if we are going to move to 1991, we had better add on what percentage was with capital and superannuation in 1991 and make sure that we are playing with the same figure in 1991. David might want to add to that.



**Mr Lennox:** I can add two or three things to it. First all, back in 1975 there probably was very little capital money available because of the declining enrolment situation. So that will not be a major part of it, but pensions certainly were a major part and they were not included in the 60%.

This concept was perpetuated by a former Treasurer, when he conjured up this idea that the 60% is 60% of what? I think we have to go back and make sure that we have everything on a level playing field. The Minister of Education, through her bureaucrats to this committee, perpetuated what a former Treasurer had stated, and that was that we are going to put in the pension money, we are going to put in the capital money and we are going to get that for 60%.

**Mr Phillips:** She said she ran on that. That was her campaign platform, that included—

**Mrs Sullivan:** She said that was her understanding and she answered directly.

**Mr Lennox:** That may be, and I am not going to challenge that here. The aspect, as far as I am concerned, is that the 60% has become a very symbolic number. Somebody has to ask the honest question: 60% of what? Then you have to go back and ask a more honest question: How much does it cost to educate a child in the province of Ontario? I believe the Fair Tax Commission will not address this. I believe it has such a huge mandate that the education section will not get the profile it deserves and requires.

I believe that until we get the recommendation from the select committee which asks for a task force studying financing of education and asks the fundamental question, how much does it cost to educate an elementary child and secondary school child and a community college student and a university student, we can play at all sorts of games in this province, but we will never come home to answer that question. The 60% will be symbolic. We will play these games called "60% of what, and what's included in it?" And Mr Stockwell's "Good luck to you."

I think it is incumbent upon the government to set up a task force to study financing of education as immediately as it can, so that we do not get to the fourth year and it says, "Oh, now we are going to set up a task force." I am looking for within the next six months.

**Mr Phillips:** It is clear in your brief what your definition was. I was in many staff rooms having to debate the issue with other parties' members. So it is very, very clear in my mind, and I think there will be some very interesting debates in staff rooms over the next few months.

**Mr Fletcher:** I am just going back to what the Minister of Education said yesterday, and perhaps Mr Stockwell is not here when she was saying it. I am not sure if he is there now. I am certain that the 60% figure was there, and I know that during the campaign we did say over a five-year period and that is what you are looking for, over a five-year period. We do understand it is not an overnight thing, as you said in your brief.

**Mr Martin:** That is correct.

**Mr Fletcher:** What would you consider to be a first move towards the 60% over a five-year period?

**Mr Martin:** That is a good point. I think what I mentioned at the outset is that we continually see the line dipping. If this year we even saw it rise, we know we are heading in the right direction. I have heard figures of 10% to 15% in other briefs. I believe it would be a very positive reaction if the gap started to close at the elementary and secondary level, that the one-two funding that was promoted through the previous government was maintained and probably extended and that the overall expenditures, or the ordinary expenditures to a school board, in fact, showed less of a responsibility to the local taxpayer as what currently stands in this province.

**Mr Fletcher:** I tend to agree.

**Mr Sutherland:** I want to ask you a rather blunt question because it seems to be popping up among some of the property tax coalitions that exist within this province, and that is the question of teachers' salaries. I think in my board 75% of the cost of the education is teachers' salaries. We got from the Ministry of Education that on average it is 63% of the total cost of education. Many of these property tax coalitions are saying, "If you're going to look at cost, you have to look at where the largest area is," and they are looking at instructional salaries. And in some cases they have called for zero increases in all areas of public sector further increases, or no more than inflation. What do you say to those people when they suggest that the prime area of looking at controlling costs is teachers' salaries?

**Mr Martin:** I think the first thing I would talk in terms of is the qualifications that the teaching force currently has in the province of Ontario. Elementary and secondary teachers are probably the best trained here in Ontario over anywhere in Canada, the number of people now who have master's degrees in education, early childhood certification, special education certificates, computer knowledge etc. When I look at the number of years it takes for a teacher to become qualified—three years of university, usually an honours degree after that plus a year at the faculty of education—it is not something where you just leave high school and become a teacher. There is a lot of growth involved.

As far as I am concerned, when I look at the qualifications, when I look at the number of hours that teachers put into their profession and the job they are doing in Ontario, the actual costs of those salaries are quite within reason. When you compare it to other professions, I think it clearly shows that teachers are not overpaid in Ontario.

**Mr Lennox:** May I expand on that just for a second? I have talked to several taxpayers with that attitude and I commented to them quite frankly about two things. One is that they are frustrated because of the burden on the local property assessment, which is a regressive tax. They are frustrated on that because of the downloading of the provincial government to the local taxpayer. They are using anybody who comes out of the public purse—teachers are a good example—as a scapegoat for their frustration. While you talk about zero-based increase for teachers, I



think we are taking the brunt of something we do not deserve.

The second aspect of it is, having been an elementary school teacher and an elementary school principal for a number of years, I found this philosophy between elementary teaching salaries and secondary teaching salaries to be very interesting. With the very high number of elementary teachers with their degrees and with their master's degrees, with the reduction of class size in the elementary schools, which has created the need for more teachers, that was denied for years and years in elementary education, right up until 1980 when *To Herald a Child* was produced.

I think between 1980 and 1990 we saw a great deal more influence and impact upon the elementary education reduction of class size and this has caused some of it as well. All of that, or the vast majority of that, has been translated on to the local taxpayers' back and it is time we stopped that so we can give them some relief.

**Mrs Cunningham:** Welcome. It is good to see you again. I thought you did a very good job of quoting the NDP policy, but it was not alone, you know. The policy statements with regard to class size and increased funding were probably part of the mandate of many elections over the years. In chatting with some people who have been involved almost as long as you have, they tell me about the meaningless use of the words 60%, because it is 60% of what?

1620

I would encourage you to expand upon page 2 of your brief, given the announcement yesterday, and explain exactly what you mean by way of a footnote today, so that we can get it into the Hansard. You say the 60% target for the provincial share has become a symbolic one in the education community. Given that the minister was, I think, throwing a few other things in yesterday which many of us will not complain about—having the other things thrown in—as long as people clearly understand what the 60% is, I think quite frankly what we are looking for is for the province to pay 60% of the operating costs eventually, down the road, if it is at all possible. That is my understanding of your position. If it is, I would just like you to verify it, because that is not what we are hearing in the halls of this Legislative Building today.

**Mr Martin:** It is our position that the government would pay 60% of the operating costs.

**Mrs Cunningham:** Based, I assume, on the research that you people have done in the operating base funding for 1973.

**Mr Lennox:** The answer is yes. The second answer is, we would be quite prepared to provide some supplementary information on that and develop some questions that would raise the interest level in the Legislature once it resumes.

**Mrs Cunningham:** I am assuming you are aware of the trustees' position earlier today when they asked for a concurrent committee to take a look at education financing. I am also assuming that in your presentation this afternoon that is what you want as well. Given that the Fair Tax Commission is looking at expenditures, I think, across the

government and the subcommittee will be looking at other ministries—at the subcommittee, my understanding is that education will be part of it and that we will be looking at other ministries—you are asking for some concurrent discussions with regard to funding education, to build on, suppose, what we heard in 1985 with the Macdonald commission, and probably take in some new demands that all know about. Could you clearly tell me what your view of that model is?

**Mr Martin:** I believe the model that we would find most favourable to is recommendation 3 from the select committee on education, which dealt with all partners in education getting together and finding out exactly what that true cost is. I do not have the exact wording, but it is on record in Hansard already a number of times to that recommendation that was put forth by the select committee and put it into action.

**Mrs Sullivan:** In her responses to questions yesterday the minister made it very clear that she would be looking not only at including capital and at including teachers' pensions, but also including the cap, as she was defining what 60% of the funding of education meant. You have indicated that you believe the 60% refers to operating costs. Your figures in your presentation speak about spending \$789.99 per pupil over the grant ceiling. I gather that that is for the public boards. The Ministry of Education figures show a spending of \$1,106 for all boards.

Do you see in the 60% operating funding a position where there ought to be a cap, or should all of the funding be subject to the 60%, the operating expenses?

**Mr Martin:** If I can talk first of all in terms of where our figure came from and where the \$1,000 came from. I did the grade 5 math question, where we added up overexpenditures of every board across the province, divided by 70 or 150, whatever the case was, and that is how we got our \$700. If you prorated them or weighted them, as they have in the ministry, we would concur with the minister that it would be approximately \$1,000-per-pupil. So we are in agreement with that.

The second part of your question dealt with, how far is this 60% and where does it cap? I believe the cap is determined when we investigate exactly what we should be paying for in education. There are frills to education.

**Mrs Sullivan:** But your position now is that 60% of operating expenses, whether approved or unapproved, ought to be covered by the province. Is that your position now?

**Mr Martin:** Approved costs, operating costs.

**Mrs Sullivan:** Operating costs and approved costs are not the same thing.

**Mr Lennox:** You are correct.

**Mrs Sullivan:** You said "operating."

**Mr Lennox:** Yes. The operating costs—the first thing that you have to do is start looking at more real ceilings, and then you cannot analyse that until you look at what the cost of education is. We know that whatever we have, there will always be boards determined to spend above that amount of money. If you have 60% of



operating costs on a more realistic ceiling, that is a good place to start, but the total costs, you will never end up giving all 200 and some boards in the province of Ontario giving every cent paid on average of 60%, because of the necessity for special programs in any given area.

So I think the problem, when we hold this discussion on the 60% situation, is that we have to go back to the basics, that the ceilings were unrealistic. So we cannot even identify 60% of approved or operating. We have to turn and say, what are the operating costs of a board? Then we turn and say, okay, what is 60% of that? And we say that is realistic; now what is that on average?

Then what are the programs we want to operate in Ontario? If we want heritage languages, let's put those in the operating costs. If we want this for special education, fine. If we want this for guidance, fine. That is why I said the 60% is symbolic right now, because we have all sorts of the puzzle out there that we have to sit down and analyse and people have been avoiding it now for a decade, focused on several other important things in financing education along the way, the Bill 30 funding and the pooling and so forth, but have not gone back to ask some very fundamental questions on financing education.

I know I have slightly evaded your question. It is because I do not have a good answer, because until we start addressing the realistic ceilings there is not a good answer.

**Mrs Sullivan:** But what I do hear you saying is 60% total operating, because the boards will determine the needs of the individual communities.

**Mr Lennox:** They will, but there will be boards that, no matter what you set that at, will increase their level of costs and the government must be accountable at some decision on the cap. You cannot have open-ended funding, I guess is the answer. You are going to have to have some level of grant ceiling out there. That is an understandable amount on average to educate a pupil in the province of Ontario.

**Mr Phillips:** I think it is very clear in the breakdown. The ministry figures are 41%—that is what you said in your document—and commitments to go to 60%.

**Mr Lennox:** That is right.

**Mr Martin:** That is correct.

**The Chair:** I would like to thank you for your brief this afternoon. Good luck in your deliberations. We cannot wait until February.

#### ONTARIO SECONDARY SCHOOL TEACHERS' FEDERATION

**The Chair:** Our next presentation is the Ontario Secondary School Teachers' Federation; Mr French, if you would introduce your companion to the committee.

**Mr French:** I am Larry French, legislative researcher. With me is Neil Walker, my esteemed colleague, executive assistant for communications. We are the B team. The A team is back at the ranch. It has an important pre-assembly meeting and the president sent his best regards and is sorry he cannot be here to deliver this brief himself.

We will try to keep it brisk. It has been a long day for you guys. I sympathize with what you are going through. I

would just like to mention that we do represent 42,000 teachers and workers in education, professional and non-professional employees. We will do it a little differently. Neil will read the recommendations of the appropriate sections first from the compendium and then I will speak briefly to each of the recommendations.

**Mr Walker:** Thank you, Larry. Take a look please on page 4. There is a compendium of recommendations 1 through 3:

"1. That the Treasurer reiterate in his budget statement the commitment of his government to raise the provincial share of education costs to 60% over five years and to outline the concrete steps he intends to take to implement this commitment.

"2. That the provincial share not be restricted to 'approved' costs, that it exclude payments for capital and the teachers' superannuation fund, that it be so defined publicly and that it not be changed unilaterally.

"3. That the transfer payments to school boards be increased by a minimum of 11% for 1991."

1630

**Mr French:** Everything flows a little bit from the previous discussion, as you can realize. We, as educators, like the NDP's Agenda for People, especially the 60% funding. We have talked that over with Mr Phillips.

We mention in appendix A the OTF news release at the time of the leaders' debate, endorsing Bob Rae's position and asking the leaders of the other parties to join up. We call on the Treasurer to do the same, to define the 60% accurately, the way we have just outlined, and to outline the steps he plans on taking towards meeting that commitment.

We think there is a series of steps that the government has got to take to move towards meeting that commitment, even though it does not happen overnight. There has been a lot of support in the community for it. The Macdonald commission has recommended it. I think there is a consensus in the New Democratic Party that it is out of kilter. At one point it recommended 80% funding from the province, 20% local. Certainly from the public school community and the separate school community, we think the 60% barometer, no matter how we define it, is about right. There is community support for it.

We have mentioned the Environics poll during the election campaign or just after, that 75% of those surveyed supported a move to an increased share by the province. It is a problem that is coming to the attention of the taxpayer locally.

On graph figure 1 on page 7 we show you the impact of the withdrawal of the provincial share. Public local education used to get 13% of the budget share; now it gets about 5.3%. That is a dramatic decrease in funding priority. If you look on page 8 you will see the dramatic decline that my colleagues from OPSTF referred to. This one is public secondary education. It goes from the high-water mark of 59% down to 26% this year. That is the lowest since 1944. In 1944 the province funded at 13% because of difficulties we can all relate to. We have added for your



delectation our election time underfunding kit, the media kit we gave out.

**Mr Phillips:** It looks familiar.

**Mr French:** It got a lot of attention, as you can well imagine, during the election campaign. One of the things we do point out there is that in comparison with competing jurisdictions like the United States neighbouring states and the other provinces of Canada, our expenditure per pupil, even though it does seem high, is not totally competitive. Other provinces are doing better than us.

We also point out that the effort in Ontario—and I think this is a key part of the whole discussion—is the lowest in the country. The per capita effort directed to local education is the lowest in the country, except for British Columbia. There is a little bit of room to muscle in and to beef up the commitment to education, we feel.

As a starting point, we endorse OPSBA's position that the transfer payments issued should go up by 11%, and if the mill rates across the province were 11% last year, we estimate that would immediately keep them at 5% this year.

There are a lot of tax revolts brewing out there. You folks with local connections know that, in the Hamilton area, London area, eastern Ontario. I think your brothers and sisters in local government need a little help. They would certainly appreciate it in this election year, if you could help them.

**Mr Walker:** Recommendation 4: "That Bills 64 and 65 be amended to mandate the delivery of adequate compensation to public boards for any revenue losses incurred through the imposition of the pooling of commercial and industrial assessment, and that the finance branch of the Ministry of Education be directed to develop and publish a method of calculation of such losses based on the actual revenue transfers from public to separate boards and the concomitant funding shortfall suffered by the former."

**Mr French:** We are talking of sort of a spillover of separate school funding. During the debate on Bill 64, which some people will remember, the NDP, supported by the Conservatives, wanted an amendment to the bill that would guarantee the compensation to public boards. The government was not keen on that approach. I guess they felt it would tie their hands a little bit too much.

We calculate that it is a significant revenue loss to public boards this year. The estimate that was made in the Ontario Public Education Network study was a \$12-million loss. That rises in escalating steps to \$116 million annual loss to public boards by the sixth year of implementation. This is too much to ignore, and this is taking into account already the government compensation package.

The new OPEN study will be announced very soon. After one year's experience we are keen to see it. We are sure it will verify the truth of what we outline right here. If there is not enough compensation offered to public boards, local public taxpayers through their local mill rate will be supporting or subsidizing separate education. We do not think this was the intent of Bill 30.

**Mr Walker:** I am going to quote recommendation and 6 on page 4: "That special funding assistance be offered public boards struggling with the aftermath of separate school extension to permit them to offer a via program to those students and parents committed to non-denominational education" and "That an English first-language grant modelled on the French first-language grant be offered to boards having a minority English-language section."

**Mr French:** The single-school communities where separate school funding has been implemented are having a rough time in some areas of the province, areas that I have brought to your attention. We have talked to the minister about Rayside-Balfour having a very difficult time because of a competing separate school that is drawing away its enrolment base. It basically needs help, a separate French-language school that served the community for a long time. It needs more help than the Sudbury board can give it. It needs provincial help. Essex county is erupting. Right now there are stormy meetings down at the board. There is an imminent transfer of a couple of schools from single-school communities that Bill 30 was supposed to protect.

These parents in the public school community, as you can imagine, are in a very difficult situation. We feel that the responsibility for Bill 30 and solving the problems created by Bill 30 is not the public board's problem. It is mainly the problem of the provincial Legislature. All three parties support Bill 30, and we feel it is up to the province to fund it adequately to make sure that the single-school communities are not threatened.

Prescott-Russell is a very special case. It lost all its French-language high schools during an en bloc transfer and was left with a burden of debt that is significant and a capital commitment that has never been delivered upon. We call on the government to recognize those difficulties. It is also almost unique in that it is English-minority language. It has a very small base from English-speaking pupils, and we recognized that in the French first-language grant. We feel this board needs an English first-language grant to help keep it viable.

**Mr Walker:** Recommendation 7: "That the design of the per pupil ordinary expenditure ceiling elementary and secondary be rigorously linked to the program costs of each panel, that they be raised to realistic levels to reflect these respective costs, and that the grant to adult continuing education be raised to reflect real program costs."

**Mr French:** This is a very delicate area of the budget. Where are my colleagues? I guess they have decided not to be bored with it. The ministry memo B-11 did focus attention wonderfully, let me tell you. It is the one OPS referred to, a top-up of grants, \$50 elementary, \$50 secondary, to close the gap. We have done a lot of listening on the close-the-gap argument. We have been told by a lot of people that it makes sense to fund elementary students at the same level as secondary students, that one student is worth as much as another. Quite a few MPPs have told that.



We felt that we should take a look at that assumption cause it does not deserve to go unexamined. We agree every child is worth another, every student is worth another, but some cost more to educate than others. We draw the analogy of the family with children to nourish and to love. It costs more to provide the necessities of life to a teenager—all parents would agree, I think—rather than to a child who is of elementary age. In the same way, without arguing in any way, it costs more to educate a secondary pupil than it does an elementary. This is what we call the stubborn and irrefragable reality of educational funding.

**Mr Stockwell:** Irrefragable?

**Mr French:** Irrefragable, right. We took that from the Vietnam war. The levels at which the per-pupil expenditures are designed recognize this. There is a reason why the secondary ceiling is higher than the elementary; it costs more to educate these pupils.

40

As to the local mill rate and the local share, we referred to the tyranny of the local mill rate. None of these boards spend unless they absolutely have to spend, especially if you are over the ceiling level. Former trustees will recognize this, because it is total local dollars, no grant ingredient whatsoever.

On page 15, we have tracked for you the growth in over-the-ceiling expenditure, and it is nearly twice as high as the secondary level. As the grant rises, the over-the-ceiling expenditure at the secondary level rises almost twice as quickly as at the elementary level. If you look at the graph on page 15, you will see that the secondary over-the-ceiling overshadows significantly the elementary over-the-ceiling. That has been a constant pattern. Board expenditure patterns bear that out. They spend what they are forced to spend, and the secondary panel, separate and public both, spend more than elementary.

We do not say that we should keep the elementary grant down and the secondary up. We would like both ceilings to go to realistic levels that are program oriented. We look at the program, we decide how much it is going to cost to educate everybody and we design a realistic ceiling at that respect.

At the same time, we think we should look at adult education. A large part of our population and a large part of our immigrant population are adults. Their grant is only about half what it costs to educate them. It should be realistic, as the government was told a few years ago.

**Mr Walker:** Recommendation 8: "That a major increase in the allocation to school capital projects be made both new and repairs and renovations accounts to begin close the capital needs deficit."

**Mr French:** We will just steer you very quickly through the deficit. In 1989, the deficit between allocation and requests was \$941 million, about \$1 billion; this is public and separate. In 1990, it has risen to about \$1.5 billion, and unless the government addresses this very quickly, there will be no solution.

Now the good part of the brief.

**Mr Walker:** Recommendation 9: "That the Treasurer implement as quickly as is feasible the progressive taxation policies included in the Agenda for People."

**Mr French:** We have referred to the fact that the Ontario effort to education is not as great as that of most other provinces. We support the Agenda for People approach to progressive taxation. We think that is the way to go.

There is a misprint on page 18 in our policy. The last word of our policy about federal and provincial taxation policies should be the word "taxation," not the word "income"—"an equitable distribution of taxation." A significant difference there. If you could change that, that would be great.

We suggest that these taxes would be supported by the public. I think the NDP garnered support for them during the election campaign. We suggest that the government consider a new tax, a leaving the province tax, that is sort of like a death tax only it is triggered by exodus, so that those companies that have profited from the infrastructure in Ontario return something to Ontario when they leave. It seems that a lot of them are leaving at the moment.

**Mr Walker:** The final two recommendations: "10. That the Treasurer and the Minister of Education investigate the creation of unified school boards which will ensure continued provision of educational services including those offered on an open-access non-denominational basis by public school boards, and those required by the Constitution of Canada for francophone and Roman Catholic citizens of Ontario."

"11. That the Treasurer offer incentive grants to any boards willing to achieve economies through an integrated or co-operative approach to the delivery of educational services and program."

**Mr French:** We feel that it is time to consider, in the light of the pressure on all our fiscal resources in the province, that the unified school board would reduce wasteful duplication, as we see it. We mention some of the things that occur. One of the things that is difficult to justify, but it is a fact of life, is the assessment bounty hunting. Both systems now are defending their taxation base with very aggressive taxation search-recruitment programs and assessment defensive mechanisms. It does not make sense. That does not contribute much to what happens in the classroom.

We must say that several public boards have extended a hand to their coterminous boards, but it has not been really picked up. I do not think there is enough encouragement given by the province for them to do so. We suggest to the Treasurer that he facilitate this by making it worth everybody's while. In the short term, it might cost a little investment but in the long term, there would be a lot of payoff.

Transportation: for example, if you structured the grant so that each coterminous board offers an independent transportation system, it might be funded—it is funded fairly rigidly—70%. However, if 75% of their pupils are on a shared system, you could bump that share up to 80% and take some of the local burden off, but the total package, we are convinced, would cost much less. Harry



Bowes knows what is happening in York county. The Auditor General pointed out that there is about \$1 million in overexpenditure in the separate board transportation budget. There are ways of making enormous savings through this approach.

Finally, we too have a task force on the funding of education and delivery of services and the president has set it up. We refer to it at the bottom of page 20 and we will be ready to collaborate with the government whenever it is ready to receive input from groups like ours. We are eager to participate.

We mentioned that we are taking a very good look at Children First's recommendations. At this point we support co-ordination of services but not the creation of a new superministry, which we think would be costly.

We urge the committee to see educational expenditure as a needed investment in Ontario's future. Thanks again for your attention.

**Mr Sutherland:** My question is on recommendation 3. When OPSBA was in here earlier today, it recommended the same amount, a minimum of 11%. When they were here, I asked them what type of impact they felt that would have on property taxes. I did not really get an answer from them that they could give a definite amount. I would like to know, since you have the same figure, how did you come to the 11% figure and what impact do you figure it would have on property taxes in the upcoming year?

**Mr French:** This would change the chemistry of the transfer and of the local and the provincial share. In the last couple of years, the mill rates across the province—and this is fairly rough—rose by about 11%. If their spending patterns stay the same, in other words, no big, new ingredients that we cannot anticipate, but they were going to do roughly what they were going to do before and the 11% on the basic transfer grant was there, probably they would only need about a 5% to 6% increase. It would make a major—

**Mr Sutherland:** So basically an inflationary at the property tax level?

**Mr French:** It would be inflation plus 11%, a significant help to these local boards. Oh, I see, an inflationary rate for the mill rate.

**Mr Sutherland:** For the property tax owner.

**Mr French:** Right. Absolutely.

**Mr Sutherland:** I would be interested in having you answer some time the other question I asked the public school board, but maybe I will ask you that separately and let someone else in.

**Mr Cousens:** I want to congratulate the federation on an excellent presentation. I think that you have, as usual, put together an excellent document and I will be going back and looking at it further. I sincerely hope that your time is not wasted. It was not wasted in August when you were making presentations to the different politicians. Everybody was listening to you then.

I just want to know whether or not you had any commitments from the present government, which did not

think it was going to be the government then, on what would do on some of the recommendations when we were all talking about them in such a friendly way back several months ago. Do you have any evidence that they would have been supportive and co-operative? What feelings do you have or proof that we could use in the House of Commons committee just to remind them of commitments that were made?

**Mr French:** Election campaigns are very enormous sensitive times and everybody is listening a little harder than they do normally. That is absolutely true.

**Mr Cousens:** I can tell you, we are always listening.

**Mr French:** Good.

**Mr Stockwell:** And they are always promising.

**Mr French:** Right on. We were very supportive of the NDP commitment to the 60% funding. I am sure it was sincere. We accepted that it was sincere and that a vote would be found to make it happen and we did not anticipate that the New Democratic Party would form the government. We were in the same position as everybody else. However, we welcomed that commitment and we are sure the government is going to take it very seriously.

1650

**Mr Cousens:** Did they make any other commitments on your recommendations prior to election?

**Mr French:** No, actually we had been discussing a lot of curriculum-related matters with the New Democratic Party. Basically, we were happy with its commitment to the 60% funding and that was the major area of our discussion prior to the election, the streaming, destreaming.

**Mr Phillips:** I am interested very much in the 60%. As you know, Neil, in Scarborough that was a big issue with all of my friends, who really hammered our point pretty heavily on it.

**Mr Cousens:** So they should have.

**Mr Phillips:** He drops in for about 10 minutes, yes, and then leaves.

In the press release that the Ontario Teachers' Federation put out I think it was quite clear, because you mentioned the 41% funding, which is the ministry figure operating, and the NDP commitment of 60% funding. The minister yesterday said that she campaigned on the basis of the 60% including pensions and capital. That was the time, because I have debated the detail of that often with OSSTF. The leadership was very much involved in this. Was it the understanding of the president and leadership of OSSTF that was what she was campaigning on, or did you have some assurances that 60% did include the pensions and the capital?

**Mr French:** I think the Agenda for People mentioned the 60% without going into the specifics. However, the understanding was that everybody understood that it was the 60% that had been defined in 1975, the high-water mark, and that the benchmark had moved down to 41% and that it was going to move back up to 60%. If we define it the way the minister seems to be defining it now, and we have already communicated with her that we disagree with this definition, then rather than the 41%



are right now, it is a 57% share. There is about a 17% or % difference in those figures.

**Mr Phillips:** Never flew when we tried it.

**Mr French:** Therefore, in terms of 1970, what Dave Innox was talking about, probably it would have meant at the high-water mark was about 67%, 68% in those years. So we would have to redefine everything in order to track it and to maintain consistency in the tracking. That is why we asked the Treasurer: "Define it, please, and stick to the definition. Then we do not have to worry about what the definition is. We do not have to debate that one. It's debate the amount."

**Mr Phillips:** Were he to do so, he would impose a much-needed measure of integrity on our discussion. I think that is an important line.

**Mr Fletcher:** I just want to say that I liked your presentation. I think your brief was very good and I agree with many of your recommendations, especially the one when it comes to co-operation between the school boards, with different systems, the separate and the public system. I think it is about time that began. I know it is something I believe in and I know there are many others in our caucus who believe in that also, so maybe we will start moving in that direction.

It is funny hearing OSSTF defend some of the practices of the school board, especially when you have negotiated with school boards. But some of the spending habits of the school boards, as you say, they are trying to defend their tax base and they are vigorously promoting their boards' advertising and spending on big budget items such as community relations and things like that. If some of these areas were eliminated from the school boards' budgets and they stopped what I call wasteful spending—because I was a trustee and I did vote against budgets that I thought were excessive—that in itself would go a long way towards lessening the impact on the local taxpayer. Perhaps if it started at that level also, then we as a government could probably move in a little more. I think it has to work in both areas. I think local boards also have to be accountable. Do you think local school boards should be made accountable by the Ministry of Education?

**Mr French:** Yes, the select committee looked at that very strenuously for a year. I think they are relatively accountable right now. The province is the senior level of government and the province can really dictate the terms under which a school board will operate and I think the accountability from the point of view of the province is in how much it gives, and the programs it dictates too, I must admit. But the real tyranny, as we refer to it, is the accountability to the local taxpayer that the board must meet. I do not think any board is irresponsible in this respect. It does what it has to do and tries to be as efficient as it possibly can. I am sure of that.

**Mr Fletcher:** Thank you for your political answer.

**Mr Cousens:** A number of your statements were political too.

**Mr Fletcher:** Yes, but I am paid for it.

**Mr Stockwell:** Actually, I think more than yourselves are confused with the Minister of Education's comments on interpretation of the 60%. If that was her interpretation, she did not tell her leader, because the Premier certainly did not interpret it that way during the election. I know full well, according to the information Mr Phillips has given, it is the same position that was put forward by the NDP candidate in my riding and the ridings around. The only one who appears to be confused is the Minister of Education, and that is really important because she is the Minister of Education.

The other point that I wanted to address is the 11% to 5%. It is true that if you get 11%, your school portion of your local tax bill is going to be—potentially you are looking at a 5% increase in the mill rate. But again, it does not reflect directly that your taxes are only going to go up 5%. You have to include the region and the local councils and so on and so forth. I want to leave the message very clearly that simply 11% does not guarantee a 5% hike, everything else being considered.

**Mr Sutherland:** Should be the education portion.

**Mr Stockwell:** Just the education portion.

**Mr French:** That is what they are referring to.

**Mr Stockwell:** There are a lot of sections; in Metro it adds up to about half your tax bill.

**Mr French:** I am sorry, the education portion.

**Mrs Cunningham:** I will just underline for you to maybe revisit your definition of the provincial share and your concerns about it, as with the former government, and how closely your concerns match what was stated yesterday. I am just drawing that to your attention.

The question I would like to ask you now is a process question. You have I think some interesting solutions and ideas for the government to consider as it takes a look at a tremendous responsibility in the funding of education. To be specific, you talk about progressive taxation policies, which I may or may not disagree with; I have not given it a lot of thought. It is the first time I have seen anything like that in a brief of this type, but that is interesting.

The unified school board: I certainly have had some experience with school boards and have always recommended the sharing of services and cutting down costs to taxpayers. So I think you have some interesting advice.

How do you best see your advice being dealt with in a public forum? I would like you to respond to how you see the Fair Tax Commission working, and the subcommittee, and respond to the recommendations that we have had, both from the public school teachers, elementary, and from the school boards earlier today.

**Mr French:** Actually, we were very encouraged by the response we got on Bill 12, where amendments that you brought forward were accepted by the government. We thought it was very helpful, a good signal. We are ready to participate in that public process.

I mentioned that we do have a task force at our office which is looking at these things. Our educational finance committee is looking at them. We have one of the best persons in the province, John McEwen, working with us. We are going to define what we think a board



should be spending and we are going to attempt to get a definition of what the 60% means in real terms for the province and then what is the local burden, no matter what it might be, and if Toronto decides to do a little better, great. That is beyond the 60% commitment.

We are drafting that material right now. We will be ready to plug it right into the Fair Tax Commission, plus the ministry's interministerial review of educational finance. We consider ourselves to be one of the stakeholders in the process and we will mention to the minister that we think we can help in this area.

We are meeting with the minister later in February and we will outline these procedures. We are getting government help to come to speak to us as we define what we are trying to do, our task force on education finance. Yesterday, Colin Maloney spoke to us about Children First. It helped a great deal in focusing where we fit in the services to children and we will be continuing in that sort of global, holistic look at the delivery of education and other services to the children and the youth of our province.

1700

**Mrs Cunningham:** To be specific, the other two groups have asked for concurrent discussions around a funding model for education, both elementary and secondary, in Ontario, to begin immediately, given that their observation and concern was that the subcommittee to the Fair Tax Commission would not only include education funding but funding for other ministries' programs as well. It felt that it was too much work, it would take too long, and they were asking for concurrent discussions in another arena for education financing. It is not new. No one has come to grips with it.

You refer to the Macdonald commission. I would not want to tell you how many others I have been involved in over the years. So do you concur with their recommendation and would you be part of those discussions?

**Mr French:** I think we would. I would have to get clearance from the A-team.

**Mrs Cunningham:** You are in a worse position than I, and I am elected. I could say on behalf of my colleague Mr Cousens and I right now that we would approve of that.

**Mr French:** We would be very glad to participate. We are offering our services, you might say. We think there should be a secondary representative on the new, reconstituted Premier's Council on the Economy and Quality of Life. That would be helpful since so much of what we are doing is involved with training. We are eager to participate in that process.

**Mrs Cunningham:** Do not take my last comment seriously. I think you have made a considerable contribution to good policy decisions in Ontario over the years and we thank you for it very much. Again, we see a very positive brief today.

**The Chair:** Thank you for coming.

## YORK REGION BOARD OF EDUCATION

**The Chair:** Our next presentation is the York Region Board of Education.

**Mr Bowes:** We did not want to impress you with numbers but we hope to impress you with quality. I am Harry Bowes, chair of the York Region Board of Education, trustee for Whitchurch-Stouffville, which is a suburb of Claremont; Joanna French, vice-chair of the board; Wakeling, chairman of the government relations committee, and we have with us our resident expert who will bring the chair up when we have finished the presentation. Bob Cressman, our director of education.

I would like to say at the outset that this brief has the support of the Growth Boards Coalition. Unfortunately, I delivered these briefs to Mr Decker on Thursday afternoon—have they got the briefs?—and we had a meeting of the Growth Boards Coalition on Thursday night. They unanimously supported this and asked me to let you know that. Otherwise, the brief would have been like this with the names of the boards on it.

The Growth Boards Coalition, of course, consists of eight large boards in the greater Toronto area: the York Region Board of Education, the Dufferin-Peel Roman Catholic Separate School Board, the Halton public and Catholic separate school boards, the Durham public and Catholic separate school boards and the York Region public and Catholic school boards.

These boards represent about 400,000 students, 90% of which are in temporary accommodation. I think we are probably one of the few groups that are presenting to you in this session representing so many public and Catholic students together.

We also have the support of some of our local councils which have passed motions supporting us—the City of Vaughan, Whitchurch-Stouffville; you may have seen some of the local papers that have publicized that quite a bit—supporting us and OPSBA on the 60% solution. And we have letters here. You remember last Thursday the Increasing Taxes group was here and we have letters from that HIT group supporting us as well.

The Minister of Education, the Honourable Marc Lalonde, has told us that she wants solutions, not complaints. In my closing statements, we will have four recommendations that you have in the presentation, plus two personal solutions of my own that I will present.

It is a great pleasure to be here and represent the fastest-growing school board in Ontario and probably in the nation. Our board has more than a passing interest in the support given by the government of Ontario to the education of our greatest resource, our young people. Our interest in the government's progress to establish its annual budget is heightened by the fact that previous budgets in which support for education waned, and in the instance of the York Region Board of Education, the support has almost disappeared. We are down now to less than 14% provincial support.

It is our intention to leave you today with only two recommendations—plus, as I said, two of my own which will include later—albeit four of great significance. In support to our proposals, we wish to identify first for you



number of salient facts that have given cause to the circumstances in which we today find ourselves as a corporate entity attempting to provide excellence and educational opportunity and outcome for 63,000 students in 111 schools in the region of York.

Despite the numbers in this presentation being our own, the York region board's, the principles in this presentation are fully supported by the growth boards. I move it over now to Sue Wakeling.

**Ms Wakeling:** A glance at the provincial scene readily identifies some interesting and discouraging facts about the manner in which the succession of provincial budgets has receded from the strong support experienced by Ontario's school systems in the 1960s and the 1970s.

In 1975 Ontario allocated a little over 15% of the province's budget to support elementary and secondary education in the public and separate school systems, but by 1988 this allocation had decreased to just over 10%. That is almost one third. That was in spite of the announcements that there were going to be additional stresses to us because of the extended funding to Catholic schools. Educators and trustees have been alarmed and discouraged by the continuing decline of provincial dollars that come our way. We cannot keep doing all this with the money going down. The piece of the pie is getting smaller.

The decline in the education share of provincial resources has translated into a horrendous shift of fiscal responsibility at the board level. In 1975 the Minister of Education, through the general legislative grants, provided support to elementary and secondary education at 61%. In 1990 that rate has declined to 40.8%, and we all know who is paid for the extra costs: us, the tenants and the property owners. We paid that.

A major instrument utilized in the general legislative grants to lower the Ministry of Education's support to boards was the adoption of unrealistic grant ceilings on a family basis. No school system in Ontario can begin to provide equal education opportunities and outcome for the students outlined in the general legislative grants. They are just not realistic. Expenditures above the grant ceilings are commonly \$1,000 per student.

**10** When you examine the capital asset needs of Ontario's school systems, the picture is equally disturbing. Growth boards are struggling to build new pupil places and portables continue to mount. In York region we have over 1,000 portables. That is the equivalent of 50 temporary schools to accommodate the influx of students to the boards.

The need for renovation and alterations to our older facilities to upgrade the roofing and the heating and the plumbing systems, as well as to meet the fire marshal's requirements and program improvements, does not stop and it is not addressed in those costs. We have one school now that will cost us more to renovate and to fix than it would to build from the ground up because it is in such poor shape. That is one school I know of because it is in poor shape. There are other schools that are equally in the same shape.

A number of years ago, school boards led by York Region Board of Education proposed lot levies for growth projects. The Legislative Assembly, after much consultation, agreed and Bill 20 was approved. We still wait. We have not heard what has happened since the new government has taken over with lot levies and that would help us.

Finally, on the provincial scene, it is less than reassuring to be informed by Statistics Canada that Ontario ranked second to last among the 10 provinces with respect to total spending on elementary and secondary education as a percentage of personal income, and the lack of reassurance turns to bewilderment when one considers that we rank first among Canadian provinces in terms of financial ability to support education. We just need to go back for a bigger piece of a pie.

**Mrs French:** I imagine you are weary after a long day of listening to people asking you for money and coming up with solutions. We can sympathize. We were at a board meeting last night until 1 o'clock and we all feel a little world-weary ourselves. We will try and be succinct about what we ask. We will try and give you a snapshot of our particular situations of growth boards. The stresses that all school boards experience are exasperated by our growth.

First, we will address grant rates, which is always very exciting. In 1975 our elementary grant rates of ordinary expenditures were 51%. By 1990 they had dropped to 22.5%. In secondary they dropped from 57% to 5%. Capital expenditures showed much the same trend. In 1975 we had 68.2% of our capital expenditures supported. Now it is 28.2% at elementary and at secondary it went from 72% to 28%. In 15 years we have seen a considerable diminishment of support.

In that same 15 years our board has grown exponentially in population. I do not know whether you have included in your presentations the graphs that we had. Perhaps you want to have a quick look at the graph. It is the straight line that goes up in five years from 48,000 to 63,000 new pupil places. That really sums up a lot of our problems.

The grant rates applicable to the recognized ordinary ceilings raise minimal dollars in comparison to the total operating costs when actual expenditures are tallied. Currently the York Region Board of Education expenditure per elementary pupil is \$1,059 over ceiling, and per secondary student it is \$1,647 in excess. The excess is paid entirely from local tax base.

We showed these graphs to the Growth Boards Coalition. The one that particularly struck a chord was the one called "Revenue Sources" which shows that the level of government support has remained almost exactly the same for five years. In fact it declined somewhat from the 1988 level. However, the cost to the taxpayer and the growth of our budget have been steadily rising. In 1985, 24% of our budget was offset by government grants. That has dropped to 14% and the local taxpayer is now asked to pay nearly 80% of our day-to-day operating costs and capital grants.

We receive almost no grants for secondary schools, as you can see by the 5.9% and for current construction of \$100 million worth of new schools. We are building four secondary and eight elementary schools at this time. We



are very fortunate, I should say, to be building those. What people do not realize is that despite the fact that we have money granted to us, the majority of the cost is paid by the local taxpayer, approximately 75%. So if you build a high school for \$17 million or \$18 million, a good percentage of that, about \$12 million, comes out of the local taxpayer. You can imagine when you have 12 schools, what an impact that has on your tax situation.

The five-year forecast for new schools for our board totals \$185 million with a further \$29 million needed for renovations and alternations as referenced. At the current grant rates we have no option but to mortgage the futures of our young residents, thereby increasing the total costs several fold due to interest charges. This was a sore point with the growth coalition. The interest costs are carefully scrutinized by our board because interest paid means less money for classroom benefits. The ministry currently pays us 28% on new projects in instalments spread over three years. In some ways that was an advantage because we knew for three years where we were going to get our allotments. However, it has meant bridge financing for most school boards. As a result we pay approximately \$3 million in bridge financing costs. That is 1% on our mill rate. In these days 1% means a lot.

The board is forced to assume costs from provincial and federal mandates. I am sure you have had this hammered home to you with rather monotonous regularity in the last couple of days. These programs are charged to the school system operations, are legislated or regulated upon us, sometimes with some financing but generally with no support.

What is also interesting is that there has been a difference in the way the grants are structured in such a way that this first covering page illustrates to you the decline, not only of the grants, but the fact that the actual general grant has gone from \$1,064, and then there is a part of the grant that is for special use only and there is no option but to use it for the various mandates, such as English as a second language, textbooks, class sizes, etc. That gives us even less room in which to manoeuvre through the pitfalls of our financing.

I am going to give you a rather depressing list of some of the things that we have to improve in our budget. When you explain this to the taxpayers, they are not really terribly impressed with our rationale. They say we are passing the buck. English as a second language is certainly an element for us. We are receiving a large number of immigrants. There is \$2.75 million we have to allot to deal with that and it is growing daily. Even in this time of recession, we have a large number of immigrants coming into the southern part, particularly, of York region.

The day care operations cost us \$250,000 and health tax \$2.6 million. Pay equity: We were one of the leaders in school boards in pay equity, and as a result I think we have very good labour relations with our various bargaining units. However, it does cost us \$3.2 million a year to continue that. Health and safety and asbestos: In fact, last night our board approved a new health and safety officer. Asbestos has been an issue of great interest and alarm in York region. We have a lot of schools that are old. We

spent \$1.5 million just removing asbestos in the last year. The expectation is that as time goes on and the schools have to be repaired or renovated that cost will continue to rise.

GST is, we think, about \$3.2 million, although I have expectations that it may be slightly higher than that. I always find it myself a bit of a shock when I get the total. As you perhaps know, junior kindergarten is something we have as yet implemented. Perhaps now you see our predicament of space and dollars, you can understand why we are baulking at this. For us to implement junior kindergarten, staffing would cost \$12 million and the actual accommodation—which would be portables—and renovations to our schools would be \$19 million. I have real concerns about the actual probability of happening in some of my schools which have 19, 20 or more portables on site. There is no room left for another school and sometimes it just seems like a physical impossibility. Class size reduction has also created a need for portables and that will cost of \$3.9 million.

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If you add those all together, you will understand that the recent tax increases could amount to \$26.15 million which translates into 8% on the mill rate. That is not what the taxpayers are asking us for. Most of them are asking for inflation, 4% or 5%. That creates real difficulty, as you know; you heard Halt Increasing Taxes. They want to stay on the line and we are really attempting to do that but it is very difficult.

In like fashion to your consultation process, we are currently receiving briefs from taxpayers. We have a special committee which now receives briefs from the public. We are most conscientious about our expenditures as evidenced by the Ministry of Education records comparing our school systems. As a large board, we rank second or third lowest in per-pupil cost and yet we have growth problems not experienced by many with which we are comparable. In light of that, I guess we are saying we are a really financially responsible board. We are not in debt and we try not to go into debt, but we do have a growing and demanding school system and we do need some assistance.

**Mr Bowes:** York Region Board of Education recommends that the 1991 budget for the province of Ontario be established to effect the following in the name of education:

1. Increase the 1991 grants to elementary and secondary education by 11% or \$500 million as proposed by the Ontario Public School Boards' Association.

There is no more to be said on that. You have heard that many times over the past week. Another one you have heard a lot about, and we support OSSTF and the other presenters who have stated that they know exactly what the 6% solution is.

2. Initiate a multi-year plan to establish realistic pupil expenditure ceilings and to progressively return education funding to a 60% level of provincial support.

3. Initiate a multi-year plan for funding the growth of non-growth capital projects of Ontario's school systems with a 1991 allocation of \$500 million.



The next three, we hope, may be some solutions to the problem of revenue and cash flow.

4. Review and reaffirm government support to Bill—education development charges—and move immediately to permit school boards to enact bylaws in order to collect levies.

I am sure you might have a lot of questions on that cause the director is the foremost expert on educational development charges in Ontario.

These two are personal ones. These came up when I made a presentation to the select committee on educational funding. Because I had a friend who was a pharmacist, these health care costs came up so I am going to have to mention it because I think it is interesting.

Sue Wakeling has mentioned on pages 1 and 2 the increase for education in the provincial budget from 15.1 per cent in 1975 to 10.4% in 1988. As a pharmacist, I started pharmacy apprenticeship in 1940, and that is over 49 years in the health services field; also a member of a hospital board for 17 years. Also, for a number of years I have had this little blue card which is very good, but I have never had it so good over the past years. Mind you, I have not to get a new one; this is signed by Peterson. I have never had it so good since becoming a senior citizen, retired from pharmacy, and looking back over 50 years in the health services field I have seen the abuses in the health care system.

In 10 years, health care spending has moved up from 15% of provincial revenues to 34%. Meanwhile education has dropped from 15%. There has been a threefold increase in the Ministry of Health expenditures in 10 years. I was heartened by the Honourable Evelyn Gigantes's statement today that they are cracking down on payments for health care, but I was saddened by the fact that she was not considering user fees.

Being in the business that long, in the pharmacy business and having dozens and dozens of physician friends, the user fee in my opinion, while it may be heresy for some of the members of Parliament, is the way to go for this government to save money and increase revenues. The Ministry of Health's budget is the one that is out of control.

On 6 September the taxpayers made their feelings known. Property taxes are out of control. It is time to change the educational source. The sixth recommendation that funding the educational source has to change away from property tax, whether it is income tax or whatever form. We would be pleased on behalf of the Growth Boards Coalition to be a part of what I understand are going to be two commissions running concurrently, the Fair Tax Commission and the commission on educational reform. We would be willing to make presentations to those commissions.

We thank you on behalf of the 20 trustees of the York Region Board of Education for your time and patience and respectfully request your consideration of our recommendations. I am going to ask Sue to go back and maybe Bob Cressman will come up. I am sure he will be able to answer some questions.

**Mr Cousens:** On behalf of my community, the region of York, and as a former trustee on this board and chairman of this board, I want to congratulate and thank Chairman Bowes and trustees for taking the time to bring this forward, recommendation 1.

I have always had trouble and continue to have trouble in finding the difference between the high-growth boards and the low-growth boards. What really grieves me as much as anything is, why is there not a bigger membership of the high-growth boards? It is unfortunate that you are not able to have a stronger coalition of boards across the province to agree with what you have got, because what you are talking about is a difference in the design of education within high-growth boards for the children there versus those in non-high-growth boards.

What I see as a problem is that unless the ministry gives a special emphasis to the high-growth boards, and it has not, we are going to continue to have the battles that are going on. It weakens your presentation by virtue of the fact there is not a larger list of names on it.

**Mr Bowes:** One of the problems, Mr Cousens, is that one of the other high-growth boards is Carleton. They are so far away. They agree with us but it is a long way for Carleton to come. They are probably the only high-growth board in eastern Ontario. They just cannot come down here to York region for a meeting. Simcoe is sympathetic to us, but they are a big, wide, spread-out board and it is difficult for them. This is on top of hundreds and hundreds—you know how many meetings we have in there, about fourfold since when you were a trustee. Simcoe has trouble.

Diane Williams, Scarborough board, is interested, with the growth in north Scarborough, in what we do and supports us but we can only do so much as individual boards in getting together.

**Mr Cousens:** Mr Chairman, I do not want to take longer because you have been going longer than I have in this committee, all day. The differences between the high-growth boards and the other boards is something—I would like to see the differences. I can see the problems you are expressing that affect our area, but also I start seeing other areas having junior kindergartens and I see other areas having other services, so that you are really talking about distinctive differences between the high-growth boards and the non. Maybe that is something we should begin to see, because there is discrimination going on between both systems.

1730

**Mr Bowes:** I do not want to take a lot of your time at this time of night, but these are some of the extras on opening a new school: inadequate funding for furniture and equipment, inadequate library and no funding for inventory of supplies to start up. Our growth requires us to buy new textbooks for that growth and that is approximately four times as much as cyclical replacement of current textbooks.

The principal is hired several months in advance of the school opening—in fact more than several months—and has to be paid. Caretaking staff are phased in at the school



well before the opening. All these are extra costs. Secretarial staff are in place before the opening. Overcrowding in holding schools and two new school openings create a need for extra staff. I do not know how many portables we had at Westminster and the crowding there—we got flak from the local residents in Vaughan. When the school is being built, we are busing the pupils to the holding schools. There is just a horrendous amount of busing, costing us about \$45 million now.

The local share of new schools and portables, as Joanna mentioned, is being added to the requirement for local taxpayers. The major point is that we are having to bear the cost of the opening of new facilities while the grants we receive for the new pupils are required to cover the cost of educating these students in the present facilities. I think the director could go on and on about the problems we have in growth.

**Mr Cressman:** In short, it is \$1 million more than approved grants presently allocate to equipment in secondary schools. We have four going right now.

**Mr Cousens:** Is that a secondary school?

**Mr Cressman:** A secondary school.

**Mr Sutherland:** I have two questions, one short and one just on your comment about English as a second language. That is the board's contribution? Are there not federal funds for that?

**Mr Cressman:** That is the York board's cost after grant.

**Mr Sutherland:** Thank you. Then let's get into this issue of lot levies, since Mr Bowes has got into that. Sorry, just before we do that, Mr Bowes, your comment about user fees: The only thing I would suggest is to get a copy of the transcript of when the minister and the deputy minister were here, because they discussed that issue.

**Mr Bowes:** The Minister of Health? I have read it, and that is why I say I was heartened by it. She is going to try to get some money from the foreign costs, from the people who go to Florida and send their bills back.

**Mr Sutherland:** There still seems to be some controversy about the lot levies. There is still a sense among some circles that whether there are lot levies or whatever, that is still a municipal burden, that the property owners are going to have to pay that in the cost of their houses at some point or other. I was wondering if you could comment on the issue as to how you see lot levies as maybe different from regular downloading.

**Mr Cressman:** Let me recount to you a telephone conversation in June 1989 between me and a taxpayer who had just received his bill wherein we had increased by an average of 16.7% all mill rates in the region. His municipality happened to come in at about 21%, and the man was understandably upset.

When I explained to him where the major costs were in the budget—they were in growth, new schools, provisional staff, etc—and about the underfunding, he said, "You mean to tell me that I am paying for the new schools being built along Steeles Avenue and up the Yonge Street corridor?" I said, "Yes, this is a regional school board; therefore

the costs are absorbed by the region and the taxes allocated according to assessment." He said: "That's not fair. I'm living in a neighbourhood where we have a six-year-old school that is 38 years of age. My kids went to that school and now my grandchildren go to that school. We paid for that school, and now I am paying for what is happening down there? We don't have a gym and we don't have a library at our school." I said, "Yes, we are working on that." That is the kind of situation we are in.

There are 450,000 people in York region, but you have to remember that during the growth spurt, 300,000 were original residents. Two thirds of them are saying: "What's going on here? Why am I being soaked for all these new schools that are being built for people coming from outside the York region from outside the region and in many cases from outside the nation?" They get some upset about it.

So there is another side to the coin that says that you should pay something here if they move in. A lot of levies, \$4,000 or \$5,000 attached on a \$250,000 home, ladies and gentlemen, is neither here nor there. We all know that. In fact, we know that has no impact whatsoever on the sales of houses because the developers will charge what the marketplace will bear. We know that too.

**Mr Sutherland:** Do you see that application applied throughout the entire province rather than just in York region?

**Mr Cressman:** Only in areas where the growth is significant. Don's question about the difference between boards—there are boards that are growing in the province by 500 a year and they have total enrolment of 15,000. That means nothing. They have got six schools that are just sitting empty. That is not an issue. Their issue is renovations and repairs to older schools.

We are talking about growing by 4,000 students a year in some years. Even right now, in a year of recession as deep as it is, we will grow this year by 2,500 students. We know where they will be? They will be living three or four families to a home. We get the revenue and taxes from one residence, but we have three and four families living in that home, as many as eight and 10 children coming out of one house. We have to provide education and new schools, new classrooms and teachers for that.

In areas where the growth is high, the lot levies will be of great assistance to us. In areas where the growth is minimal, I would admit with you that it will not be as important to them as the grants they would get for renovations and alterations. I know because I was a director on that situation in another board.

**Mr Phillips:** First, I do appreciate the presentation. Some other members earlier said that you are only one group speaking for the trustees, but I like to see a variety of groups before us. I know how tough it is in your area because it is very difficult to manage growth when you get very upset. I used to be a trustee in the north of Simcoe borough. I think over my tenure we built in my area at least 30 schools. I went through all of that. You go through that every day and I appreciate it.

I think the 60% funding commitment, if they move it, will help you. I will set aside the user fee area, by



y, because I realize it was probably an unexpected recommendation from you.

**Mr Bowes:** It came out of the select committee. They told me about how we are going to get money and I thought that up.

**Mr Phillips:** But on the capital side, this group's recommendation for an incremental \$500 million in capital—number that I have in my mind is that pre-1985, the vital budget was \$70 million or so. In the last four or five years for the province, it has been running at about \$100 million.

**Mr Cressman:** It was \$338 million last year.

**Mr Phillips:** Yes, that commitment, I think, is through 1993 at \$300 million. But your recommendation is for an incremental \$500 million each year on top of that?

**Mr Cressman:** No, that is changing the \$338 million to \$838 million, which is a very simple mathematical calculation. It gives you a 10-year plan, because you have a \$1-billion budget ahead of you.

**Mr Phillips:** So you moved from \$300 million to \$800 million?

**Mr Cressman:** Yes, that is the recommendation.

**Mr Phillips:** Each year for 10 years?

**Mr Cressman:** Yes. That gives you a 10-year plan. That is probably longer than people like to see, but at least it is a plan that would see an end in sight.

**Mr Phillips:** I think another group made a recommendation to us earlier for the capital spending programs, the kind of antirecession stuff. I think the group was saying that maybe part of that could go to the \$700 million that has been announced. I understand now; from \$300 million to \$1,000 million a year.

**Mr Bowes:** Yes.

**Mrs Sullivan:** I am interested in your look at the long-term projections. Halton has also gone through a growth area, but not growing nearly as quickly as York, long-term infrastructure planning where the school boards and the municipalities have come together and looked down the road at what their needs would be in terms of demographic change. This is a comment, not a question really. One of the things that they looked at very seriously was the change in demographics over that same period of time. They were looking at 20 years, and therefore the change in capital need, as much as it could be predicted, over that period of time.

I do not know if you are finding this, but in our area the first heavy need is at the elementary level with second- and third-grade schools not requiring proportionately as many pupil spaces in the beginning. But latterly the emphasis is going to be on the secondary level where the costs are significantly higher for pupil spaces in terms of construction. That was factored into their process. Of course, the whole project was done to spring additional funding. They will be likely to do the new government about it again. I suggest that you do too.

**Mr Cressman:** To use this here as an example, we had 12,700 more students this September than the previous

September, which was down 1,300 from the year before, when we had a pupil growth of 4,000, and 3,800 the year before that. Of that 2,700, 1,500 were elementary, 1,200 were secondary, so you are right. At the moment there is a greater increase in elementary, but you have to remember that that wave moves on through. Therefore the impact does come in the secondary panel later and the cost in the secondary school today is roughly \$20 million. The cost in elementary is \$6.5 million to \$7 million, not counting land.

**Mr Sutherland:** Can I just get you to clarify what size of schools you are talking about at \$20 million?

**Mr Cressman:** We build our secondary schools for \$14 million and our elementary for \$6 million.

**Mr Bowes:** I might say that on Thursday night we had quite a long discussion on this with the Growth Boards Coalition. I would like to read this paragraph again:

"Interest costs are scrutinized carefully by our board because interest paid means less money for classroom benefits to the students. The ministry currently pays us 25% of new projects in instalments spread over several years. As a result, we annually pay approximately \$3 million in bridge financing costs, 1% of the mill rate." They were really concerned and wanted us to use that part about the interest cost that boards have to pay. That ties in with recommendation 3 on the \$500 million.

**The Chair:** One of the groups that came to make a presentation here suggested that one of the costs that could be reduced is if, as the municipalities get 5% of the developed land, school boards would also be allocated a percentage of the land. Do you concur with that? Would you support that?

**Mr Cressman:** That would certainly decrease our costs. It would not solve the problem, however. At the moment, for the last decade, I have done all the negotiating personally for our board with the big guns, the Marco Muzzos and the Alfredo de Gasperises and so on, and I can tell you that the land prices have escalated considerably. The negotiations become more and more difficult between those gentlemen and me each year and sometimes end up in legal confrontation to solve our problems.

That is fine, but you have to remember that at the present time on an elementary school project of, let's say, \$8 million, you are looking at perhaps \$1.5 million in land and \$6.5 million in building. If and when the economy returns to full bloom and we go back to this business of \$500,000 an acre that they would like to see paid, then you are talking—

**Mr Sutherland:** Is that \$500,000 an acre?

**Mr Cressman:** That is often where they start. They used to start at \$750,000 and I beat them down to the point where they now start at \$500,000 and I will start at \$50,000. You know the old game in negotiations. You play from there.

**Mr Bowes:** Industrial land there is \$1 million an acre.

**Mr Cressman:** That means I would predict that in a few years your average elementary school will run you \$4 million or \$5 million for land and perhaps \$7 million or \$8 million for the building. If that component of land were

removed, that would take out a considerable portion, but there is still a very expensive building to go up, particularly in secondary schools, where the percentage is out of whack again, building to property. It would help, but it is not the total answer.

**The Chair:** On behalf of the committee I would like to thank you for your presentation.

**Mr Bowes:** Thank you, Mr Wiseman and fellow MPPs. It might help us to get a few more schools. You may even help to get a new school in Uxbridge.

**Mr Phillips:** You are shooting for the whole works.

**The Chair:** Before the committee adjourns, there is one item of business.

**Mr Christopherson:** Thank you, Mr Chairman. I appreciate that. I spoke last night to a group of credit union directors and managers and asked them if their provincial organization had made any presentation to us and they had not. They expressed an interest. I asked them to follow up

on it because there may be an opening. We did the same thing for the bankers' association. I understand they will phone this morning and that they are pencilled in but I wanted to formally, for the record, put a motion forward that indeed they are invited and they constitute part of the agenda.

**The Chair:** We do have a half-hour slot. Is it the consensus of the committee to include them?

**Mr Christopherson:** Monday at 10:30, I think, is the time.

**The Chair:** Is that acceptable? Okay, Monday morning, 10:30.

**Mr Christopherson:** Thank you, Mr Chair and members of the committee.

**The Chair:** This committee stands adjourned until 10 o'clock tomorrow morning.

The committee adjourned at 1744.



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**Legislative Assembly  
of Ontario**

First Session, 35th Parliament

**Official Report  
of Debates  
(Hansard)**

Wednesday 30 January 1991

**Standing committee on  
Finance and economic affairs**

Pre-budget consultations

**Assemblée législative  
de l'Ontario**

Première session, 35<sup>e</sup> législature

**Journal  
des débats  
(Hansard)**

Le mercredi 30 janvier 1991

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économiques et financières**

Consultations prébudgétaires

Chair: Jim Wiseman  
Clerk: Todd Decker

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 30 January 1991

The committee met at 1012 in committee room 2.

### PRE-BUDGET CONSULTATIONS

#### ONTARIO CHAMBER OF COMMERCE

**The Chair:** I would like to begin this morning's hearings with the Ontario Chamber of Commerce: Don Eastman, chairman of the economic policy committee; Art Nithard, member of the economic policy committee, and Jim Corcoran, president. Welcome. If you would begin, please.

**Mr Corcoran:** Thank you, Mr Chair. Can we assume that we have a half-hour beginning now?

**The Chair:** Yes.

**Mr Corcoran:** Good morning, ladies and gentlemen. It is our honour and pleasure again this year to be speaking to this committee. We represent an organization of business with 60,000 members across the province of all sizes of business entities, all sectors and all geographies. As an organization, we certainly applaud the whole process that we see under way, including this repeated theme of consultation. I would just comment on consultation, that that is provided that it is consultation at the policy formulation and implementation design stage and not just advising us about implementation plans.

The presentation we would like to make this morning breaks into two parts. The first part will be presented by Don Eastman, who is the chairman of our economic policy committee. The major points we would like to make are that the business community needs confidence builders at this point in time, not more burdens, and therefore a major point is no new taxes. The second point is that we feel that the public sector can lead by example in terms of wage settlements that should be no greater than the rate of inflation. We have comments to make on the fiscal stimulation policy and the harmonization of the PST and GST.

The second part of our presentation this morning is a theme that we have presented before. It has to do with the consistency of accounting of government books. Art Nithard, who is also a member of the economic policy committee, will handle that portion of the presentation.

**Mr Eastman:** At this point, as we enter 1991, Ontario finds itself in the midst of a serious recession. The coming budget should have two major objectives. First of all, end the recession and restore a positive, dynamic provincial economy that provides productive employment opportunities for our citizens, income for people who enjoy the goods and services of our market economy and tax revenue to support the important services provided by the public sector. The second major objective should be to alleviate the personal hardship being imposed by the recession without damaging the prospects for economic recovery.

Let me stop here to assure you that under the current circumstances the chamber will not be calling for a balanced budget this year.

In order to cure the recession, it is first critically important to understand what caused it. There is a great temptation to run out and treat symptoms. We would remind you of the medical dictum, *primum non nocere*, above all, do no harm. The current recession has been caused by deliberate policy on the part of the Bank of Canada. It purposefully set out to increase interest rates and artificially increased the value of the Canadian dollar in order to increase unemployment.

While we may think that policy is wrongheaded and misguided, the Bank of Canada is not being malevolent. One of the major responsibilities of the bank is to maintain the purchasing value of the dollar by controlling, if not eliminating, inflation. Its only tool for doing this is to restrain economic activity by increasing interest rates and the exchange rate of the Canadian dollar. The current recession is the bank's response to a disturbing increase in inflationary pressures. Both the consumer price index and the wage settlements began what the bank considered to be a dangerous escalation.

In order for Ontario to play its part in restoring the economy, it needs to reduce the inflationary pressures in the province and permit a growth-oriented monetary policy. It also needs to rebuild business confidence that Ontario is a good place to be in business. It has been frequently observed that this is a made-in-Canada recession. It has also been a made-for-Ontario recession. The growing inflation problem that the bank is trying to cure has been centred primarily on Ontario.

The recession that the bank has created has had a direct and immediate impact on the market economy. Unfortunately, its impact on the public sector tends to be minor and slow. In the market economy, companies are disappearing and downsizing. Bankruptcies have become distressingly common. Many private sector employees now find themselves without jobs. Unemployment is rising and so is the load on the province's social services. As a result, spending requirements are rising at the same time that tax revenue is shrinking. While the market economy is bleeding, the public sector is largely continuing as though the party was in full swing.

The public sector has been a major part of our inflation problem. We have seen tax increases that have been a major component of the consumer price index increases. We have also had significant legislated cost increases that have impacted on business and then flowed through the consumer price index. We have also had public sector wage settlements that have tended to significantly exceed market sector increases.



At this point in time, we desperately need the provincial government to stop being part of the inflation problem and become part of the solution. One of the problem areas has been public sector wage settlements. They are high-profile settlements that have a double impact: They provide a target for private sector employees and they also increase government costs and result in higher taxation needs. How do you tell steelworkers that due to economic conditions, ie, negative profitability, that they have to accept less than the teachers' increase or put their job at risk? And this just after they get their tax bill for much higher education costs.

Most provincial tax initiatives and legislated cost increases flow through the cost of goods and services to ultimately show up as increases in the consumer price index. The provincial government has taken the lead in protecting the public service employees from its higher taxes, pay equalization costs and the costs of its higher environmental and workplace safety standards by indexing its wages and pensions to the consumer price index. The province needs to stop exempting public service employees from paying their fair share of Ontario's social programs.

The inflation bias that underlies our economy has been terribly destructive at a human level. Currently, we appear to need a substantial cushion of unemployment in order to control inflation. That is tragic both for those who lose their jobs and for those economically disadvantaged who are less employable. Following its long march back from the 1982 recession, the economy was finally beginning to provide opportunities for those people in 1989. They now, in 1991, find a large and growing barrier of employable unemployed standing between them and their reasonable job expectations.

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In addition to this province's responsibility in reducing inflation to permit a growth-oriented monetary policy, Ontario needs to look carefully at business confidence. In order to be positive, dynamic and self-sustaining, economic recovery must be driven by the market economy.

The business community's confidence in this province has been shaken and eroded by a variety of legislative initiatives, tax increases and new taxes. Business costs have been seriously increased in what has appeared to be an arbitrary and capricious manner. That erosion preceded the current government, but I think I can fairly say that last fall's election has not exactly eliminated business concerns.

The initiatives that the government has taken since the election have generally not been helpful. We have seen trailer-length legislation, extended parental leave, rent control legislation, pre-emptive cancellation of the Hamilton expressway. None of these actions has shown much sensitivity to the impact on business nor to a consultative process that would have permitted an expression of business concerns.

Business confidence may not appear to be particularly relevant to the pre-budget process. However, until the market economy recovers, the province is going to find itself seriously short of taxation revenue. Anything that slows

the economic recovery will exacerbate the revenue problem.

In the area of taxation, the Ontario Chamber of Commerce welcomes the creation of the Fair Tax Commission. However, we are apprehensive about the potential make-up of the commission and its terms of reference. We are looking for a commission that has the ability and mandate to look past the point of tax collection to understand who ultimately pays our various taxes and is sensitive to the impact of taxes on economic activity.

The truly regressive taxes are those taxes and government actions that increase costs and reduce productive employment without providing balancing benefits. In terms of unnecessary costs, one of the most regressive taxes we have right now is the provincial sales tax. Whether we like the federal goods and services tax or not, it is now a fact of life. By integrating the provincial sales tax and the federal GST, we could save substantial business compliance costs and government administration costs. The total effective tax load would be reduced with no loss to government revenue, and in fact government funds available for productive social spending would be increased to the extent that government administrative costs are reduced.

In the area of fiscal stimulation, the Treasurer has announced a \$700-million spending program to help stimulate the provincial economy. In a normal business cycle recession, this would be an appropriate response. With a monetary policy recession, it is counterproductive. Until the Bank of Canada fundamentally alters its current policy, stimulative spending by this government is like trying to fill a bathtub with a teaspoon while the Bank of Canada has the plug pulled.

The Treasurer has identified the economic infrastructure of the province as a priority. We agree with that assessment, but the first thing we have to do is to get the plug back in the tub. Until then, government spending does not stimulate anything, it simply squeezes out personal and business spending.

In the meantime, rising obligations under existing social programs and reduced taxation revenue threaten to produce an ugly deficit even without the benefit of new spending initiatives. Extreme caution in spending is required or we will quickly create a deficit hole so deep that it will appear to be insurmountable.

We are never keen about new taxes or tax increases. They would be particularly harmful in the current environment and should be avoided. I think we would be doing our members in the chamber a disservice if we did not remind you that we have consistently recommended that the province run surpluses and pay down its debt in good years so that it could be more responsive to social needs during tough economic times. We wish that advice had been heeded.

I would like it turn it over to Art on the accountability essay.

**Mr Smithard:** Thank you, Don. Good morning everyone. In the chamber's presentation prior to the preparation of the 1990-91 Ontario provincial budget, I stressed the importance of the province adopting the recommendations of the Canadian Institute of Chartered



accountants public sector accounting and auditing committee.

The CICA has conducted a vigorous study of government financial reporting practices and has brought forward a series of recommendations designed to make government financial statements more understandable and useful to the readers. We feel that it is essential that the province of Ontario take action to implement these recommendations. Incomplete or misunderstood financial information can lead to inappropriate economic decisions both by elected representatives and by the public at large.

The government of Ontario is extremely thorough in its approach to the establishment and maintenance of financial standards for the thousands of public companies that operate in the province. Last year, the Ministry of Financial Institutions spent \$35.6 million to ensure that Ontario investors were protected by rules and regulations that recognize the complexity of modern business undertakings.

It is ironic that the government itself struggles with an accounting approach and financial reporting practices that could be more suitable to the 1890s than the 1990s. These problems were highlighted during the recent election when no one seemed to know if we were headed for a surplus or deficit.

The financial operations of an enterprise the size of the government of Ontario are extremely complex. It is accurate to say that the government is the largest enterprise in the province and therefore should be a leader in implementing accounting processes and financial reporting practices to ensure that its citizens are well informed. The most important of the required changes can be summarized as follows:

**The need for consolidated financial statements:** At present the province produces financial statements for what it describes as government operations. This is a ubiquitous label and is not to be confused with all of the operations that the government and its commissions are involved in. In a more fundamental sense, it does not represent all of the operations that are undertaken on behalf of the citizens of the province and for which the citizens have a financial responsibility.

The most striking example of this problem relates to the determination of how much the taxpayers really owe. Last year's budget forecast an accumulated deficit of approximately \$39 billion for government operations. However, the outstanding value of province of Ontario bonds is substantially more than that.

These bonds are sold on the basis of the government's ability to raise money through taxation and represent the extent to which the taxpayers are in debt to holders of provincial bonds. Even this total does not include the unfunded liabilities of pension funds and the Workers' Compensation Board, which would appear to add an additional \$7.5 billion to the total. Consolidated financial statements are required if we are to be in a position to understand our debt position.

The adoption of a more modern approach to financial management would lead to a better understanding of the many assets that make up the infrastructure of the province. The maintenance of these assets and their replacement

and modernization have a great bearing on Ontario's ability to maintain its productive capacity. This requirement goes far beyond the simple recording of assets and accumulated depreciation on a balance sheet.

It is significant to note that the province of Alberta continues to make progress with the presentation of consolidated financial statements for that province. In addition, the state of New York continues to extend its reporting of the state's fixed-asset base.

Another requirement that should be given serious consideration in the preparation of the government's budget and in its financial reporting is to more clearly delineate between fixed-program spending and those items for which the government has some degree of spending flexibility. At this time, it appears that fixed-spending programs such as health, social services, education, together with interest payments on public debt, account for 79% of all spending. In addition, a significant portion of the remaining 21% of government spending relates to long-term commitments in the form of wages to employees and the cost of essential government services. The end result of this situation is that the government has very little room to manoeuvre and virtually no financial ability to undertake spending programs.

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A clearer statement of the government's financial position through the use of consolidated financial statements, coupled with a more precise statement of its spending commitments and flexibilities, would lead to a better-informed decision-making process. Such a process would also produce a more stable base of information for making longer-term financial forecasts prior to undertaking new spending commitments.

We recognize that these requirements cannot all be achieved in this budget, but we urge the government to end the delay of its predecessors and make progress towards implementing a more modern and sophisticated form of financial management on behalf of the taxpayers of Ontario.

**Mr Sterling:** I am really happy that you have raised the whole idea of the financial accountability of governments and also the agencies of the government, in that the transfer—I do not know what it is but somewhere between 73%, 74%, 75% of the money goes to other agencies to spend the money on our behalf.

I asked the Treasurer, when he appeared in front of this committee the very first day of our hearings, if he would agree to sit down with the Provincial Auditor and set forth a method of reporting to the public on his expenditures and on his revenue, etc. He agreed to do that and I hope that is going to be one of the recommendations of this committee.

Having served the longest in the Legislature of any of the members of this committee, having served as a minister of the crown and having watched in opposition, it is my conclusion after 13 years as a member of the Ontario Legislature that accountability does not serve the sitting government. In other words, there is no desire on the part of those in power, normally, to be accountable in a clear and simple fashion for the people to understand. Many of the



actions of government lead to dispersing the responsibility so that the public cannot really understand what is going on.

During the last administration we had an example of preflowing of money, some \$400 million one year and I think \$350 million another year, where the Treasurer inflated his deficit during non-election years and then brought that money back into the election year so he could declare that he had balanced the budget when we were facing an election. I think that is nothing more than political opportunism in terms of not declaring to people when in fact you had done better, and only developing the books so that you could present a political statement rather than an accountable statement.

I hope one of the recommendations of this committee will be that the Treasurer and interested parties—and perhaps this will be something for our committee to consider after we have finished the pre-budget consultations—set down in black and white what is fair to both sides in terms of reporting and how often those reports should be made and how timely, because right now we are having trouble getting the Treasurer to give us our third-quarter statement of what has happened. There seems to be no question that we are in a real spin in terms of the overall deficit, but he is stalling in producing that information. We are going to try to get it out of him, I believe, tomorrow.

In terms of the financial reporting, one of the things that has concerned me is that we have hospitals and school boards that are spending more money on our behalf than some provincial governments. Does your concern go to those agencies as well?

**Mr Smithard:** The recommendations CICA has put forward primarily focus on the operations of the provincial government, and they would clearly show the transfers the government makes to other agencies, either municipalities or the hospital system. Again, there is a follow-on piece by CICA that will be making recommendations for municipal governments.

I think one of the real difficulties in looking at government accounting and financial practices is that there is really not much cohesion between the federal, the provincial and the municipal levels of government. Practices are quite different and it is very difficult to track things through the entire process. I think traceability and accountability is something that needs to be improved, particularly when you consider the size of transfer payments that take place in the Canadian economy.

**Mr Sterling:** Could I ask you a specific question about the \$700 million the Treasurer has talked about in terms of stimulating? I understood at first that you were saying he should not spend this money, but on the second part I was not certain whether you were softening that stance. In that it is estimated that somewhere in the neighbourhood of \$40 million of the \$700 million would be spent in this fiscal year—that means before 31 March—and that economists have come in front of this committee and said that we are likely to pull out of this recession in the third quarter, it seems to me that by the time that \$700 million is in fact in action in terms of providing employ-

ment, etc, we are already going to be on the uphill climb towards economic recovery. Are you saying to the Treasurer that it is better to keep the deficit down than spending the \$700 million?

**Mr Eastman:** There are a couple of points tied together. First, I guess we are not opposing spending \$700 million per se. I think what have been identified are some legitimate areas where the money should be spent but it is a mistake to believe that this somehow stimulates the economy, because you have in the current circumstances the Bank of Canada with strict control of the money supply. That means it is really controlling in terms of the amount of money that can be spent; not who spends but how much will be spent. So to the extent that the province decides to spend more, it means that somebody else spends less, because of the way the monetary policy has been exercised.

It is important that you cannot stimulate a fiscal policy unless it is accommodated by the bank, and this will be. When the bank does ease off, I think you will find that there will be a lot of personal and business spending ready to come in. In the business spending there are some other concerns, but I think the first thing is that you have to ease the monetary policies.

In terms of when we might expect an economic recovery, which was the related issue you had in that, we sincerely hope we are going to see a fundamental recovery under way by the third quarter. So far, that is in a sense more of a wish than a forecast, because at this point we still have not seen what I would term any fundamental easing of the monetary policies that got us into this situation. You have seen a drop in interest rates, but if you look at the value of the Canadian dollar, it has really changed very little. One of the reasons it has changed very little is partly because of the petrodollar influence but, more important, because we are still maintaining a better-than-4 basis-points short-term interest rate spread with US rates. That is not easing at all, in my book.

So I think the jury is still out as to whether we will have a third-quarter recovery and how strong it is. I certainly hope we are going to see it.

**Mr Sterling:** You mentioned that you were concerned about the high wage settlements in the public sector. Are you in favour of price and wage controls in the public sector at this time?

**Mr Eastman:** In the private sector, wages and prices are controlled by the market.

**Mr Sterling:** I said public sector.

**Mr Eastman:** Yes, I know. In the public sector there is no effective similar control, and you have to have some other form of control instead. I hear a lot of people are excited about wage and price controls for the public sector. The alternative is for it to be uncontrolled, and that is not acceptable. The only question is: How do you control it and how do you really create a fair situation so that you do not have negotiations taking place in isolation and separate from that which really are not rooted in economic reality?



**Mr Jamison:** You did not really deal with my question within your report, and it seems to be a significant problem at this time: cross-border shopping. I am interested in your thoughts on that. The other point is that it is interesting that you have almost great concern over how the Fair Tax Commission would be structured. I would be interested in finding out how you felt it should be structured specifically, and the cross-border shopping impact at this time on the economy.

**Mr Eastman:** Cross-border shopping is a very messy, complicated topic. There are a number of things impacting on cross-border shopping. Currently it represents a growing loss of taxation revenue for the province. How much that is, I am not sure. I think one of the things that would assist with the cross-border shopping problem would be the integration of the GST and the provincial sales tax, because currently you have the problem that the provincial sales tax is effectively not collected on goods coming in from the United States. If you roll in the provincial sales tax and fully integrate it with the GST, you then have a mechanism whereby that will be collected at the border. That is only part of the problem; it is not all of it, but it does catch part of the problem.

There is a whole bunch of other issues there, including the Sunday shopping part of it. The extent to which you have the flow-through of a lot of other business costs in the U.S. has meant that when people are looking at prices on the other side of the border, Canadian prices really do not look all that attractive, even after you have blacked out some of the more obvious tax impact. So that one is a messy issue and deserves a lot of attention.

**Mr Jamison:** I thought that many of your members across the province would be within range of that cross-border shopping situation, and I thought you might have more to say on that in your report. I was fairly surprised that you had not.

**Mr Eastman:** We will have some further material coming on. That is an active topic of research for us currently.

**The Chair:** We have a presentation at 11 o'clock this morning from the Border Communities Task Force on Cross Border Shopping.

**Mr Jamison:** The second part of my question was that you showed some concern about the Fair Tax Commission and how it should be structured. I would be interested in finding out how you feel that tax commission should be structured, as you zeroed in on the structure of the committee.

**Mr Eastman:** Again, the word here is "apprehension," not "opposition." I think the concept is a great one. We are concerned that when we see the makeup of the committee we can be comfortable. We have a sense that that committee, because of its makeup, has the capability of having an objective look at the whole taxation issue and has the depth of understanding not just to look at it superficially but to really look at it through the whole set of underlying causes.

**Mr Jamison:** You have no specific recommendations?

**Mr Eastman:** Not at this point.

**Mr Sutherland:** We have heard in the last few days from the public school boards, we have heard from the colleges, we have heard from the universities. Every one of those groups or their representatives who have been in have called for significant increases in educational funding through the entire system. You have commented in your report about where you think deficits should be, financing and that. Even in this time of recession and with a deficit, would it be your advice that if you were thinking about spending more money, increasing the deficit, education would be the area to do it, in terms of those colleges, universities, public and high schools and skills development?

**Mr Eastman:** I have some concerns about education. I think education is critically important, probably our most important public asset, our most important public investment. If I look back and I see what has happened to the rapid progress of technology over the past two decades, it has primarily been in information technology. Our ability to process and manage information has increased incredibly, both in what we are able to do and the cost-effectiveness with which we are able to do it. When I look at that, it means it should have been able to translate into an education system that is able to do quite a bit better than it has, using less funds than it has. I think there is a tremendous opportunity for the education system to be much more effective in producing an output and using less funds to do it.

Having said that, I think post-secondary education has been a bit starved for funds. If you look at where the funds have been going and where the funding problem has been in terms of absorbing money, it is the elementary and secondary school level.

**Mr Phillips:** Just a comment, and then a couple of questions. One is that in your document, on page 5 at the bottom, you say, "...if we did not remind you that we have consistently recommended that the province run surpluses and pay down its debt in good years.... We wish that advice had been heeded." I guess you may not be familiar with the numbers. We did heed the advice and I would be happy to sit down with the chamber, because four or five years ago the deficit was running at \$2.6 billion on a budget of maybe \$26 billion. Each year it went down. There was a surplus last year, as you probably know. I think any reasonable person would say that this year, without the recession, there would have been a substantial surplus.

I do not want your members being unfamiliar with those numbers, because our reputation is at stake. I just assure you that the advice was heeded—heeded by taking the taxes up, okay? I recognize that—none the less, a surplus, paying down the accumulated deficit, and I think anyone would acknowledge that this year we would have had a substantial surplus had we not had the recession.

But my question really is twofold. As one of the members said, we have had now five different economic forecasters here, three banks and the conference board and



Infometrica, and they are all predicting that in the mid to late calendar year, this calendar year, Ontario will pull out of the recession and then see some substantial economic growth next year and from there on. I know you have partially answered it, but because there is a bit of art and a bit of science in this thing, I would be interested in how your members see and therefore how the chamber sees the economic future of Ontario unfolding.

My second is a little more detailed. I agree with you that there are a number of unfunded liabilities around that are not on the books, whether they be pensions or workers' compensation, but also I think we look at capital in a different way from the private sector. We pay capital out of current; we do not amortize or depreciate our capital. I think the Treasurer has signalled that he may be looking at a different way of funding capital. I was wondering if you had any advice for the committee in terms of whether we should be trying to put a figure on the capital assets there and funding some form of depreciation. I think you are looking at it in quite a different light. So those are my two questions and my comment. I would be happy to sit down with whoever in the chamber prepares the numbers to make our case.

**Mr Smithard:** I will take the last question first, because that is the easy one, dealing with capital and the treatment of it. Today in the provincial accounting process everything is handled on a cash basis. Normally in business and in provinces and states that have introduced capital accounting, the entities have segregated their expenditures between current expenses, things that will be consumed this year, and things that will have a value into the future.

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The state of New York, which undertook a very lengthy study of this, started in 1981 with its study. They started phasing in their investments in 1987 and that is continuing to this time. What they attempted to do was to identify those investments that the state or the province make which are really important to the future of the enterprise. I think that if you do that and if you establish a depreciation study base as to how long these assets are going to last, how much money you have to put into them to keep them operational and how much money it is going to take to replace them when the assets are worn out, this is vital to the wellbeing and the ongoing success of the province.

We urge you to move in that direction as quickly as possible. It is not something that can be done overnight. It would probably take 10 years if you started today. It is a big job. We are not talking about counting statues on the lawn at Queen's Park; we are talking about the important assets that the province has that make up the productive infrastructure of the province.

**Mr Phillips:** They do, eventually, depreciation—

**Mr Smithard:** They are starting into that, and I believe that they have completed depreciation studies on things like computer equipment and motor vehicles, sort of medium-term assets. They have not, to the best of my knowledge, been able to complete depreciation studies on

things like highways and bridges, but I believe it is the intention to do that.

**Mr Corcoran:** Let me comment on your comment and the second question. Our position with the Treasurer for at least the last three years was that prudent business do not plan on the basis of a continued projection of growth market. I understand from your footnote that had not been for the recession, but that was our whole point that in times of economic prosperity that is exactly the time to be paying down.

**Mr Phillips:** That is why we went to a surplus.

**Mr Corcoran:** On the second point, if you were to speaking to business people outside of Ontario, they would be saying, "Oh, you mean Ontario's recession?" For people throughout Ontario, business people throughout Ontario, we have been made aware of the optimistic view of third-quarter recovery by the Treasurer and by financial institutions. But I would think most prudent business people that we speak to are not making decisions based on third- or fourth-quarter recovery in terms of a decision that will only have to last for three to six months. They are making decisions that will last for the long term.

The good news of that is that if there is a recovery in the third quarter, all companies, the majority of companies will have a lower fixed-cost base and will be well positioned for recovery. I do not see anybody making decisions on an assumption that there will be a recovery in the third quarter at this point.

**Mr Phillips:** Do you survey your members at all? I am just wondering if there is any tracking that is done in terms of—

**Mr Corcoran:** We have not made a statistical survey but we do have a quarterly board meeting. We have had at least three or four passes at them with what we would call our Ontario recession.

**Mrs Sullivan:** I think the comments you have put forward on the accounting methods are very interesting, and Mr Phillips really asked a question that I was very interested in on the capital side, but I also wanted to go back to some of the matters you have raised in the fiscal stimulation section of your brief. One of the things you mentioned that the government should exercise extreme caution on spending. Of course, spending includes not only actual dollars put out but forgone income as well.

The federal chamber has taken the position that incentives to business should stop and that you can do very well on your own, thank you very much. I would like your comments on that, given, for instance, the recent initiatives which in fact have been welcomed, particularly by the manufacturing sector in terms of the Ontario current adjustment moving to 30%, an initiative which was taken by the previous government and which this government has indicated it was going to continue.

**Mr Eastman:** I think one of the important aspects is that one is the issue of tax stability, because many of the manufacturing industries have done their planning based on that commitment. It was then quite appropriate that it should be followed through with on the capital cost allowance.



**The Chair:** Excuse me, could you move forward and speak a little bit more into the mike? They are having trouble back there with the recorder.

**Mr Eastman:** Sorry. I think the capital cost allowance is one of these items that should be properly addressed by the Fair Tax Commission, because one of the problems we have is that we wind up with the conception that somehow this is one of your taxation expenses, forgone revenue.

In fact, one of the problems we have with corporate income tax is that because there is no assessment of the impact of inflation, the full amount that is available for capital cost depreciation winds up being substantially less than the real amount that should be available. In a sense you have two offsetting factors going on there. So I think that in terms of your attitudes you have two biases, and it is appropriate that that should be addressed by the Fair Tax Commission.

**Mrs Sullivan:** Okay. Well, in that case the Ontario current cost adjustment moved from 15% to 30% as of 1 January. This should have been of significant benefit, I think something of the value of \$150 million or something. Does the Ontario chamber hold the national chamber's position? Do you concur with that point of view?

**Mr Eastman:** In terms of generally eliminating the direct subsidies assistance business, yes, we do.

**Mrs Sullivan:** How can you apply that concept then, when we are very clearly looking in order to be competitive over the next period of time, with massive needs in research and development, which clearly will not be done by business alone? How can you bring those positions together when on the one hand we know there is going to have to be immense co-operation between government and business? Is business prepared to carry that load on its own?

**Mr Smithard:** I can give some insight into that in the sense that many businesses make substantial contributions in the R and D area. I am with Bell Canada, and the Bell Northern Research consortium puts a tremendous contribution into research and development in a very strategically important area to Canada. I think there are other firms that also invest heavily in research and development.

One of the problems we have in terms of measuring that is that the definition relates to the tax law. In other words, the definition of research and development is not sort of defined by people who are interested in research and development per se; it is really defined under the tax law, and you get a lot of strange things caught up in it as a result of that. That is a difficulty that we have, and in part it gets tied up in the tax credit process. I think your point is well founded, and that is that the government does need to continue to give good recognition to R and D tax credits.

**Mr B. Ward:** Just a quick question before I make a comment. I have just gotten back from Cornwall after the last couple of days on a skills development issue with the Minister of Skills Development. In talking to the people in Cornwall about the economic conditions that exist there, talking with my colleagues from Wind-

sor, from the Sault—I know what is going on in Brantford; my colleague Norm Jamison is suffering some tough times in Simcoe—the feeling I get is that our provincial economy is undergoing a fundamental restructuring.

In the recession of 1981-83 we were reducing the manufacturing base in size, but with new economic growth would bring back the labour force if not to the same employment levels, even more so. What is happening now, in my opinion, is that the restructuring that is occurring is in our manufacturing base, that the plants that are laying off, closing up, are gone for ever. They are relocating or centralizing their operations for whatever reason, but they are gone for ever. I would just like a comment from the chamber's perspective, if that is its view on what is going on in this recession for the province of Ontario.

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The second point I would like to get their opinion on is on page 4. They mention under "Business Confidence" that "In order to be positive, dynamic and self-sustaining, economic recovery must be driven by the market economy." I was just wondering, from your point of view, the Ontario Chamber of Commerce, everything being equal and if we heed your advice, how do you envision the market forces leading to economic recovery? I am assuming by market economy you are talking about it being driven by the private sector rather than the public sector.

I can relate to the very severe depression we had in the 1930s where every year the business leaders were saying that recovery was just around the corner—"Allow the private enterprise system to do its job and the pressure will be over"—yet year after year after year it continued. I was just wondering how you envision our recovery to occur if it is driven by the private sector.

I wonder if you can comment on those two. First of all, in your opinion are we undergoing a fundamental restructuring of our economy in the province? Second, how do you envision the private sector leading us out of this recession?

**Mr Eastman:** Clearly there is some fundamental restructuring taking place. The timing of the recession is really tragic because it is occurring at the same time that people are looking at the restructuring that would be appropriate under the free trade agreement. To try to do that in a circumstance where the Canadian dollar is artificially held at 86 cents and where you have a general depression of business confidence in this province at the same time, that does tend to steer some decisions elsewhere. That will be permanent. That reinforces the need to get out of this recession as quickly as possible.

In terms of the role of the market economy, it was serving this country and this province extremely well in terms of driving the whole economy up until the time that the Bank of Canada said: "Hey, the party's got out of hand. We have to stop it." When the Bank of Canada does make a fundamental change in policy with competitive interest rates and the lower value of the Canadian dollar, and if at that point you have a continuing problem with the lack of



investment and activity from the market economy, that needs to be addressed then, but at this point I do not have any real concerns that we will not see a recovery once we can get monetary policies in place.

**Mr B. Ward:** You are fairly confident that once the Bank of Canada eases the monetary restrictions we are under with the high-interest-rate, high-dollar concept, the private sector will be able to lead us into recovery provided everyone gets his economic house in order, so to speak, in your opinion?

**Mr Eastman:** I do not think there is any doubt about that at all as long as there is, in conjunction with that, a restoration of business confidence that this is in fact a good province to be in business for a variety of reasons.

**Mr Christopherson:** I realize the lateness of the time. I had a number of questions, some have been asked; I will just ask one very quick question if I can. Most of the people coming before us over the last couple of weeks have been indicating with a fair bit of confidence that effective the beginning of the third quarter of this year we should start to pull slowly but steadily out of the recession. I would just ask if the Ontario chamber is also of the opinion that that is what is going to happen. Is it your sense that your membership is planning to respond with that kind of timetable in mind?

**Mr Eastman:** I think there is a tendency, once you are in any recession or boom, for people to believe that it will continue for ever. If you were to go out and ask our membership right now, I am not sure that you would find a great many of them, particularly in the smaller businesses, who really do see that upturn coming. When you start talking to the large businesses, those that can have their own economic staff, etc, then you do have a view that yes, recessions are temporary things and you come up the other side of them.

A concern I have is that most of those forecasts for a third-quarter recovery are econometric-model forecasts. There are some things that are fundamentally different about this recession, including the fact that there is some restructuring taking place.

At this point we still have, in my view, an adverse monetary policy. There is normally a fairly significant lead time between the time you have a change in monetary policy and the response in the market economy. You have some things like housing starts that can respond fairly quickly; car sales can respond fairly quickly; with business investment, depending on its size and nature, the lead time on that can be from six months to 18 months, two years.

In a sense, if you want a third-quarter recovery, you virtually have to have almost an immediate change in the current monetary policy. If that happens, then I would be comfortable that we would see it happen.

**Mr Christopherson:** Good. Thank you for your presentation and your brief; we appreciate it.

**The Chair:** On behalf of the committee I would like to thank you for making your presentation today and thank you for coming.

## ADJUST ONTARIO

**The Chair:** Our next committee hearing is Adjust Ontario; Marnie Hayes, Fiona Knight and Richard Yampolsky.

**Ms Hayes:** Good morning, Mr Chair and members of the committee. I would like to thank you for the opportunity to appear before you this morning on behalf of Adjust Ontario.

My name is Marnie Hayes, as mentioned, and I am a community and legal worker with Metro Tenants Legal Services. With me are Richard Yampolsky, who is the executive director of FoodShare, and Fiona Knight, who is the program director with FoodShare.

Some of you may be wondering what Adjust Ontario is. It is an organization, a sort of network of social service and community agency groups, that came together about June 1990 with a list of demands to alleviate poverty in Ontario.

We believe that the root causes of poverty must be looked at in order to alleviate poverty, and that there is a whole package of reforms that must take place in order that poverty is no longer in our midst. For example, there is no point in increasing the minimum wage while at the same time having incredibly high prices for rental housing. Therefore, there is a whole package that we would like to present to you this morning which includes an increase in the minimum wage, an increase in social assistance rates, an increase in child care rates, an increase in non-profit housing and mandatory employment equity legislation which includes funding for public education.

We believe that the time of recession is not a time to hold back on public policy, social and anti-poverty initiatives, but it is a time to go ahead because now is the time when homelessness, poverty and hunger are at their height. To quote the NDP's Agenda for People, which was a platform election package, now is the time that "families no longer have to choose between paying the rent or eating."

With respect to housing, we believe that the lack of decent, affordable housing is one of the two primary causes of poverty in Ontario, concurring with the Transition report of the Social Assistance Review Committee.

Currently there are about half a million tenant households that spend more than 30% of their income on rent and there are over 190,000 people in Ontario who are forced to rely on food banks to eat. It is estimated that the average food bank user spends approximately 70% of their income on rent. In the Liberal government report, More Than Just a Roof, for the International Year of Shelter for the Homeless, it was estimated that families that spend more than 50% of their income on housing are at risk of becoming homeless should their economic circumstances take a turn for the worse.

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Currently the public housing waiting lists have grown to 44,700 people in 1990, which is an increase of more than 60% since 1987. In Metro Toronto alone it is estimated that there are approximately 20,000 people who are homeless.



The need is clear. The number of non-profit housing units has to be increased in Ontario. We consider housing to be a right, like education and health care, and it is the responsibility, in this case of the Ontario government, to provide affordable housing for its citizens. The question is, how should that housing be provided and where should the government allot the funds to create more affordable housing? We say that co-operative housing and non-profit housing are the most viable solution because non-profit housing is affordable housing that remains affordable over time, unlike housing in the private market which is subject to inflation and speculation.

Housing production is good during a time of recession because it creates employment. Each new housing unit that is created creates 2.2 person-years of employment, giving living wage jobs and at the same time much-needed housing.

It is true that it is very expensive to provide programs for co-operative and non-profit housing, but we ask this committee to be in agreement with the 1990 report of the standing committee on finance and economic affairs, which recognized that non-profit and co-operative housing are important elements in addressing the issue of affordable housing.

We are going to move on to the issue of social assistance and minimum wage.

**Mr Yampolsky:** With regard to social assistance, since their inception Ontario's social assistance programs have always been predicated on the notion that some people were or are more deserving than others. We have seen over the years the development of benefit rates that differed for employable people, families with children and disabled persons. Not only has this meant that tens of thousands of people have been forced to live in poverty, but the general population, through this segmentation that has taken place, has been made to believe that there really is a hierarchy of deservedness among those people who constitute the poor. Disabled people are more deserving than employable people, and everybody knows that children, the innocent victims, are the most deserving of all. What we have really done is that rather than look at the whole issue of poverty, we have segmented or segregated the various aspects of poverty.

Benefit rate structures have never had any bearing on the reality of what it takes to maintain oneself and one's family in dignity. The theory behind keeping social assistance benefits low has been and still is to this day to create a disincentive for people who rely on social assistance and to make income from paid work more attractive. As we found from the statistics released by the Social Assistance Review Committee, only 9.5% of people in, I think it was July 1988, were actually employable. So we are looking at about 45,000 people who were recipients at that time—I presume now the numbers are higher—beneficiaries of social assistance, who were actually employable. About 90% were actually sole-support parents. Children made up 41% of this, yet we were punishing them at the same time.

This whole theory I was just talking about around the disincentives also does not address the reality of those people who are simply unable to work. Single parents who

can neither secure nor afford child care or who choose to remain at home with their children are penalized and forced to live in poverty because of these choices and because of the lack of available support programs. Disabled persons, many of whom are unable to work, are also forced to live in poverty.

I do not think anybody in this room could really disagree that benefit rates are woefully low, given the low-income cutoffs established by Statistics Canada and the Department of National Health and Welfare, as well as various social planning councils across the country. Social assistance recipients in Ontario still fare no better than 55% to 74% of these standards.

With the release of the Transitions report by the committee in September 1988 the details really did come to the fore, and I am not going to bother going through all of them. But the minor tinkering with the implementation of Transitions by the previous government and since October 1990, I guess, has really meant that the clear vision still exists for Transitions. I was before this committee a little over two years ago as well, talking around the implementation of Transitions and the need to act on it.

What we are really beginning to see is that while the vision still exists and while there are many of us who still use it as a very clear vision to really address systemic poverty issues in the province, the political will is still lacking. To date, only 25 of 66 recommendations contained in phase 1 of Transitions, in the very staging program, have been implemented in any way, shape or form. To give credit where credit is due, the current Minister of Community and Social Services has asked—they are supposed to be reporting back either today or tomorrow—about the non-legislative aspects of Transitions that could be implemented, and to her credit has requested that the non-legislative side be fast-tracked.

In April 1990 the standing committee on social development of the Legislature had a series of hearings on food banks, and the report back from that recommended the provincial government “implement the balance of the social assistance rate increases called for in the first two stages of the SARC reforms (including two years of indexing).” We have yet to see this.

We know the cost of maintaining approximately 10% of the provincial population in poverty is increasing. Increases in health care costs and judicial and social services can all be attributed to increases in poverty levels, and yet we continue to advocate that, by eliminating the number of people in poverty, we will obviously see a corresponding decrease in expenditures in other areas.

The recession is not the time to stop social assistance reforms. This period should see an unprecedented increase in social assistance payments. This should not merely be because of an increase in welfare case loads, as we are seeing in every municipality across this province, but must instead also dramatically see increases in the level of benefits paid to people in need.

I believe it was Mr Ward who was talking about the actual restructuring that is taking place. The comment around my workplace is that we are now no longer talking about the haves and the have-nots, but we are talking about



a new category and that is the used-to-haves: "I used to have a job. I used to have a house." In many cases it is "I used to have a family" and "I used to have support." We really are seeing a very different sense of restructuring that is taking place right now, and without both financial and social supports there are an awful lot of people who are going to fall between the cracks.

The other part we have really begun to notice in terms of people who are in need of social supports is that in the early 1980s it really was to a large extent a blue collar recession. It was an industrial base that was eroded, again with high hopes that it would come back. We were talking about layoffs. We are now no longer talking about layoffs; we are talking about job loss, jobs that are not coming back. What we are beginning to find from people who are contacting us for assistance is that they had been until recently at least middle-income, middle-management men and women who had what they presumed to be safe, secure jobs or career paths that they were really looking at. It is a very different sense of the economy right now, and without the social and financial supports for these people we are dooming an even greater number of people.

The previous presenters were talking about the third quarter of this period, being the recession, seeing the upturn in the recession. We had been talking for a year and a half before everybody finally admitted that there was a recession, that we were in the midst of a recession. We do not see this recession ending for at least two years.

We tend to be at the cutting edge, for lack of a better phrase, of where the social supports are needed for both people on social assistance and the working poor. We tend to get the calls from people needing assistance. We were getting an awful lot of calls starting at the beginning of last year, and they really starting picking up probably in May and June of this past year. We do not see this relenting at all. Generally if there begins to be an upturn, we will see the demand for our services decreasing. In fact what we are seeing right now is an ever-increasing number.

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I would also like, before passing it on, to just touch briefly on the issue of the minimum wage. No one, I do not think, in this room could argue that the minimum wage has not lost its purchasing power since the mid-1970s. During this period, the provincial workforce has increased and the economy has grown dramatically, but wage rates have ostensibly fallen. Currently the purchasing power of the minimum wage is approximately 80% of what it was in 1975. I think everybody is fully cognizant of the growth of the working poor in Ontario.

As the workforce has grown, so too has the percentage of absolute numbers of working people who constitute this new buzz-word of the late 1980s called the working poor. In the past few years the number of people requiring assistance who constitute the working poor has increased dramatically. We are now looking at approximately 18% of people who need assistance every month from emergency food programs across Metro Toronto, and we correlate across the province as well, who constitute people who are classified as the working poor.

The current government in both its Agenda for People platform and in its inaugural throne speech committed itself to increasing minimum wage rates to 60% of the average industrial wage. Just for those of you who do not have calculators, this would increase the minimum wage to roughly \$7.25 a hour. Although we do not doubt the sincerity of the commitment, we and the people in Ontario who still have jobs and who are working at minimum wage really need to know the time line that this government is talking about for implementation. Is it within the upcoming budget so that people have hope in the short term or is it at the end of their term as a further election promise in which case they can anticipate another five years of poverty?

We are looking at this committee to recommend that these increases and the time line be spelled out very clearly.

**Ms Knight:** In the early 1980s the report Day Care Deadline was released. This deadline has since passed. Child care advocates, parents, child care workers, trade unionists, teachers' organizations, women's groups and others concerned about child care in Ontario have since undertaken a further review of the progress made towards any establishing of a universally accessible, publicly funded, high-quality, comprehensive, non-profit child care system in Ontario.

Despite increased government expenditures, there has been little improvement in the delivery or funding of child care in Ontario. In fact the situation has deteriorated for many children and care providers. Adjust Ontario support to the position that now is the time to put public non-profit child care services and their development on a sound footing. The following proposal is a framework for a new child care system in Ontario, a new decade for child care.

The key elements of this system will incorporate each child care program being fully funded by the provincial government and the provincial government will be entirely responsible for cost recovery through a separate administrative system. Another element is that the provincial system will be non-profit. Existing for-profit programs could become part of the provincial system by converting to non-profit status.

The provincial system will be comprehensive in that it will allow for a range of regulated services, including but not limited to full-day group care, private-home day care before- and after-school programs, parent-child resource centres and services for shift and seasonal workers.

The development of this system is a provincial responsibility. To achieve the goal of universality, targets and time lines will have to be planned and implemented provincially. Last but not least, local community planning services will be an integral and vital part of the development of these new services.

Funding of this system: Currently about 65%, or numbers 75,000, of the 117,000 licensed child care spaces are non-profit or publicly operated. At an average cost of \$6,000 a space, the current full cost is estimated at \$460 million. An additional \$50 million is required for existing subsidies in the commercial sector. Current for-profit spaces receive fee-subsidized spaces. No new public



unding should be available to commercial programs under the new system.

Additional costs of other child care in the 1990-91 budget, including services for physically and developmentally disabled children, parent resource centres, capital expenditures, pilot project, research and development, were allocated a further \$60 million. Therefore the total cost assumption for stabilizing the current services is \$560 million.

Several options, as estimated by the Ontario Coalition for Better Child Care, can finance this restructured system. The province of Ontario should maximize recovery of the federal cost-sharing currently available through the Canada assistance plan, called CAP, by using maximum federal income eligibility guidelines for the purpose of determining reimbursement.

Using these criteria, it is assumed that the cost of care for 72% of children at an average of 70% of costs would be eligible for cost-sharing under CAP. In dollar figures, the cost-sharing for 75,000 non-profit spaces will be \$227 million. In addition, the current subsidy to the commercial sector of \$15 million brings the total to \$277 million. The federal share of these costs would be 50% or \$138.5 million.

To generate this reimbursement, Ontario would need to spend at least \$138 million. Given that the Ontario budget of 1990 anticipated spending \$257 million on child care, it seems reasonable to assume that this amount would still be the provincial contribution.

Added to this will be the revenue generated from parental contributions, calculated through a new Ontario child care contribution using an income-testing model, estimated at \$150 million. The total anticipated revenue would be \$545 million. Given these calculations, it only takes an additional commitment of \$15 million to require the province to accomplish fundamental restructuring of child care in Ontario. We therefore request this committee to consider the following recommendations:

1. Fund 10,000 additional subsidized spaces and create 10,000 new spaces for non-profit and publicly operated services;
2. Implement and fund pay equity adjustments for all child care workers who have not found a remedy under the existing pay equity legislation on the same schedules as other public sector workers;
3. Take action to restructure the child care system as outlined by budgeting an additional \$15 million to the \$257-million commitment in the 1990 budget.

This is just a small investment for the big return of the future of Ontario: our children.

**Ms Hayes:** I would like to speak briefly to the issue of employment equity. It is clear that discrimination in employment denies women, persons with disabilities, visible minorities and aboriginal people the opportunity to compete fairly in the job market. Women continue to earn two thirds of men's wages, aboriginal people have twice the average unemployment rate and people with disabilities have unemployment rates as high as 80%.

It is the hope that this government is going to implement employment equity legislation. We ask that this com-

mittee recommend that in the budget there be money for an employment equity commissioner to institute an educational program so that employees and employers can learn about the issues of employment equity, and that will focus on guidelines to assist the process and the development of the employment equity plans of the government and to develop formulas to establish goals and timetables.

In addition, we ask that this committee see that policies are introduced that ensure accessibility for the disabled, especially in the distribution of the \$700 million announced in the throne speech, that it be allocated to necessary maintenance and renovation of public sector facilities and that the distribution of all government grants for construction and renovation projects be considered.

That is basically our presentation this morning. Are there any questions?

**Mr Stockwell:** Basically pretty much everything you spoke to was dealt with in the Agenda for People, which is the policy statement that the government had during the election. Since they have been elected, they have been doing the backstroke with respect to introducing a lot of these programs and fulfilling a lot of their promises. They have given a lot of reasons and rationale as to why they cannot, including the recession and the debt. Are you buying into this, or are you telling us today that this government is obligated to fulfil An Agenda for People, to deal with a lot of the issues you are talking about today, regardless of the economic climate we are in right now?

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**Mr Yampolsky:** I think from our presentation today it is very clear. I do not think you are wrong in terms of seeing some of the similarities between what the community has been calling for for the last seven to 10 years and An Agenda for People. By our presentation today, what we have said, and what I said very clearly around the minimum wage legislation that we are looking for, is we want the timetable.

We are saying the same thing around their commitments around child care. The government has committed itself to X number of spaces and we are saying, "Fine, let's see them." We also hold very clearly to the position that the recession is no excuse; that, if anything, the recession is really the critical time when social spending has to increase as there are more people in greater need.

Just as an aside, because I suppose either it will come up or it is at the back of a number of people's minds, there is the whole issue of the cost-sharing with the federal or provincial arrangements under Canada assistance transfer payments and the 5% ceiling or the cap on the Canada assistance plan that is affecting Ontario. I guess it is also critical to remind legislators that prior to the CAP arrangements with Ontario in the mid-1960s, Ontario paid 100% of costs.

I understand that there are political implications with Ontario spending what tends to be called 100% dollars as opposed to 50% dollars or 50-cent dollars, but it really is critical now, as we see food bank lines increase, as we see more and more people losing their homes. Really, it has



reached the perverse stage where food banks and bailiffs are the only ones doing booming business.

**Mr Stockwell:** Surely the question, though, is in fact you see the backtracking taking place but you are going to hold firm to those promises that they made in the election. I do not agree with everything you say, but I agree with the fact that if someone makes a promise and produces a report like *An Agenda for People*, it is your job now to come forward and ensure that the government was not simply just making this up to get elected.

**Mr Phillips:** Just to follow up on that, because I am relatively sensitive to this, as you know, I was Minister of Labour and I had responsibility for the minimum wage. I do not know whether any of you were among the picketers who kind of went after me, sponsored by the Labour Council of Metropolitan Toronto.

I am quite sensitive about *An Agenda for People* because I think that is one of the bases on which the new government got elected and one of the bases on which we were defeated, in spite of the fact that the budget of the Ministry of Community and Social Services went up dramatically. I think it was up 20% this year. I think we put \$500 million into implementing the Social Assistance Review Committee. But that was not, I think, fast enough.

I guess what you will have to count on us for is to monitor *An Agenda for People*. *An Agenda for People* did not say we are in a recession, so I do not think the new government can get off the hook on that. I gather the Treasurer is now saying he has a windfall—surprise, surprise—of \$1 billion, which brings the revenue maybe—I do not know; we will know tomorrow—back up to what we thought it was. A \$2.5-billion deficit is an unusual one because, as I say, it now looks like government revenues, in spite of the recession, are not going to be down the \$1 billion that was predicted right after the election.

We will be watching *An Agenda for People*. I think the timetable was in there. On your minimum wage, the timetable was in the agenda. I think it was over four years. On the child care it is over two years. On the housing it is over two years. I think the new government will simply be monitored on the basis of *An Agenda for People*. I guess you are at a committee that can help you do that, in spite of the tough economic times.

**Mr Yampolsky:** With respect to the way it was laid out in the agenda, though, to state the minimum wage would be raised to 60% of the average industrial wage within four years does not help us because the whole lump sum can be done in the final period.

**Mr Phillips:** They would not do that.

**Mr Yampolsky:** It was two years?

**Mr Phillips:** It says over four years.

**Mr Yampolsky:** Yes. Minimum wage was over the course of four years. What we are really looking to, and I think what people in Ontario are really looking to, is the staging process of this. Is it going to be nickel-and-dimed? We saw with the last government—I think it was a 40-cent increase in one lump sum. Are we looking at those kind of increments? What are the incremental benefits for people who are earning minimum wage, and over what period of

time can they really look to it? On the other side, I think employers have to know that.

**Mr Phillips:** Yes.

**Mr Yampolsky:** I think it is critical in terms of a kind of economic planning, particularly for the small business sector that they are looking at, to know what kind of incremental costs they are going to have to look into.

**Mr Phillips:** Just for your information, I was the minister and I tried to move it up. The argument I got was that it would result in fewer jobs. That is why the old government took it up at the rate it did. I can recall—eyeball to eyeball with maybe one of you or not—the new government saying, “No, no, it should go up to 60% of the industrial wage.” I think the new minister has made an announcement in the House about it, so we will be watching that.

**Mr B. Ward:** I have two questions and I hope you can answer them to the best of your ability.

The first one is that during these tough economic times we have been getting a feeling from organizations which perhaps take a conservative look at things that in fact they are spending too much on social programs, that with the recession we should be cutting back our commitment to social programs because of the cost. There is a feeling among some individuals that people who are on social assistance, UI, or whatever the program is, could work if they wanted to. Could I get your answer to that? Should we be cutting back at this time, and if so, why, or if not, why not?

The second question concerns the minimum wage. The criticism about increasing the minimum wage is that it would be destroying our competitive balance in the global economy with our competing provinces or our southern neighbours. What answer do you have to that, that by increasing the minimum wage we will not be harming our ability to perform as an economy?

I guess I have one more question. There is what I call a conservative view that the Holy Grail is a triple-A credit rating as a province. Do you think we should be concentrating on that more than on having adequate social programs for the working people in this province during these tough economic times?

Could you just touch on those three areas so I am clear in my mind what your organization feels we should be doing during these tough economic times?

**Mr Yampolsky:** I will attempt to tackle the first and the third, the one around spending cuts and should we be cutting back, at the same time as dealing with the whole issue of a credit rating.

It is our really firm position that no, there should not be any cutbacks in social programs at this point in time—in fact, if anything, there should be dramatic increases. I think, from a purely economic perspective, if you look at a cost-benefits analysis of it, by cutting back on social assistance programs or any type of social program—and I leave the health out of social programs because it is its own entity at this point in time—by cutting back on social spending you will see, and I think we have begun to see, an increase in crime.



You will see an increase in health care costs being incurred. It is no mystery and no great surprise that poor people are more reliant on the health care system than middle and wealthier Ontarians. That is purely because people who are not in poverty can afford to live in safe and secure surroundings. They do not have to deal with cold-water flats, and yes, we still have cold-water flats in the 1990s. They can afford to feed themselves and their children properly, adequately and with nutritious food. They do not have to suffer, as we are seeing right now, an increase in the number of children who are suffering with tickets. That has not been seen pretty much since the post-war period, but there really is a dramatic increase.

They can, for the most part, afford to provide their children with breakfast so that their children can go to school and can succeed in terms of behavioural issues and behavioural problems. A longitudinal study was actually done in Boston. They correlated academic scores and school feeding programs or school breakfast programs and actually found the academic scores of the children who were having proper nutritious breakfasts went up on average 9.5%. So we are really looking at investing in both the current generation and in future generations of Ontario by increasing that.

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We also have to look at the fact that by increasing income support programs, you really will see decreasing reliance on the health care system. It is our contention as well that as the recession deepens, there will be an increase in crime. There will be people who will be desperate to provide for both themselves and their families. I am not saying that that is why we are seeing such a dramatic increase, but I have no difficulty stating publicly that I think certain people turn to crime because they just cannot afford to pay for themselves or cannot afford to take care of themselves.

In terms of a credit rating, I do not think that an increase in social spending would really necessarily see a dramatic attack from Standard and Poor's and everybody else on our credit rating. I do not think one thing has anything to do with the other.

For me it relates as well to your question around the minimum wage, that by increasing the income of all Ontarians, both through minimum wage and income support programs, you also increase their ability to consume goods and services across the province. That also, to my mind, begins to put people back to work, because as demand for goods and services increases as people have income in their pockets, there is going to be the corresponding response from the other side, which is we are going to have to meet the supply based on the demand that is coming up. More and more people are going to be called back to work.

**Mr B. Ward:** If I can clarify, in your opinion, by increasing the minimum wage we would not experience job loss, but in fact we may experience job gain because of the—

**Mr Yampolsky:** Yes, provided we are not prepared, as certain governments have been and are prepared, to lose

our entire industrial base within Ontario. If we are prepared to relinquish our industrial base and simply look at Ontario and particularly the greater Toronto area as being a service sector economy, then I do not know if I would stand this firm.

**Mr Hansen:** The question I want to ask is if it is possible, before we make our reply, that we get a photocopy of the written speeches that are there, because by the time Hansard comes out, after we write the report, it will be of little use to us.

**Ms Hayes:** We have a written brief.

**Mr Hansen:** Because I lost on some of the figures there as you were reading them out.

**Ms Hayes:** Yes, we have it all. Everything that we said is in writing and we will have that brief to you later on today or tomorrow.

**Mr Hansen:** Okay, that will be fine. Thank you.

**Mr Yampolsky:** The printer broke down.

**Mrs Sullivan:** I think that your intervention today was a useful one and I agree with my colleagues that new promises were made and a new government elected and I hope that you will hold them to those promises.

I want you to review some of the information that you provided relating to child care. Just as a preamble to my question, over the past five years we have seen about 200 to 225 million new provincial dollars going into child care for subsidized and new spaces, and Ontario in the last budget, I think, committed about \$260 million to child care. With the request that you are making, I think that new spaces or subsidized spaces would add an additional \$65 million, let alone whatever the additional costs are of operating spaces that exist, including the pay equity suggestions that you made.

Where I am having trouble following your argument is your suggestion that only 15 million new dollars would be required. It seems to me that you are underestimating the change in federal transfers through CAP. We understand that in this fiscal year there is going to be \$310 million less coming from the feds for the CAP program and in the next fiscal year \$510 million less.

As a consequence, the province's share to maintain and to add new spaces will have to go up. As you have indicated, at one time the province carried the whole load of child care. I am wondering if you are asking of the new government that despite what happens with federal transfers, the province take the load and provide those spaces with or without extra funding from the federal level.

**Ms Knight:** The new spaces are not in question. The new spaces were actually following through on the election promise and the number of spaces that had been requested before, phased in over so many years. That was the 20,000 new spaces.

The funding arrangements would occur within a restructuring of funding. The restructuring of funding would take away an administrative layer that now happens at the municipal level, which costs in some cases municipally—I know in Toronto—100% municipal dollars. The readjustment from needs testing to income testing would bring



about additional revenue from parental fees. That is all worked out within a brief presented by the Ontario Coalition for Better Child Care last fall and various meetings have been held to discuss where the restructuring and where the money would come from.

The capping of CAP, yes, has had a substantial effect on what moneys would be available in the future for child care, but we still see it as provincial leadership, especially within Ontario, where Ontario, British Columbia and Alberta are particularly affected, that some protest be made against capping CAP and that should come as a provincial initiative.

**Mrs Sullivan:** Of course, there already is a court case. That still does not answer the question, should Ontario then make up the extra funding requirements?

**Ms Knight:** Yes.

**Mr Curling:** As this government came into power to govern, I have become more sceptical about the fact that it can honour some of the promises or commitments, as it would call them, to bring about the programs that it wants. We all knew during the election that there was a recession on the way. But I also feel that not only governments have a responsibility to carry out changes, but also organizations like yourselves to deliver. Sometimes I am quite sceptical about organizations. Some of the organizations are delivering in this way, and I will be specific.

You spoke about co-ops being a very effective affordable housing program. Yes, I believe that too. I think that the concept is great. I just wondered too if you are looking at your programs and finding out who are the people who are in the co-ops. You talk about income tests and needs tests. It seems to me the complaints I get all the time—of course they have their own special lists, who gets into those co-ops, and if you look in there, there are quite a few people who can basically afford housing outside in the private market itself. The people who are in need, more so, do not get in.

The other part I would like to touch on—my colleague touched on the child care thing very eloquently, the concern that she has—is the part about employment equity. Again in that area, when those things come into place, whether it is affirmative action, whether it is pay equity or whether it is employment equity, the people whom the needs are addressed to are excluded.

As I hear you speak and as I hear government speak, it comes in this pecking order. It says, “Woman” and the call becomes woman and then it becomes a certain type of woman. Then it becomes disabled, then it becomes native. They become the people in discrimination, the people of a visible minority. Every time a program is started, then those have to wait back for those in need more. I think those who are for housing are going to have to stay back and wait a longer time for those in need, because the others will get in front.

Do organizations like yours see yourselves re-evaluating your process to find out—after the governments, whoever they are, put their programs in place—whether the real people who are in more dire need have access? You have that responsibility and I am hearing a sort of quiet,

low protest—because the protest was pretty high the time of the Liberal government. I do not want to use the word “protest.” Are the words and the advocacy strong now as they were then?

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**Ms Hayes:** With respect to non-profit housing, we are asking that 20,000 units of affordable non-profit housing be provided by the government over two years, including co-op, municipal non-profit and private non-profit.

We believe that co-op housing is in fact a very positive and good form of alternative housing for not just low-income people but also moderate-income people who cannot afford home ownership; that is, as we see a growing number of people in Ontario who cannot afford to buy a house but who want some form of security a co-op provides them.

There are certain politicians whom we see who have in fact occupied co-op units, who make a large amount of money, but statistics by the Co-operative Housing Federation of Canada have shown that they are a very small number of people who occupy co-ops. People who cannot afford to buy houses generally do. People who cannot afford that can live in co-ops.

Each co-op generally has 50% rent-geared-to-income units and 50% market units, and we believe that the government should be committed to providing a range of housing for all income levels, not just poor people, not just home owners, but all ranges. We believe that co-ops are a good, democratic form of non-profit housing.

**Mr Curling:** Fifty-fifty. Let's address that. You said 50%. You were asked the per cent that are rent-geared-to-income. Do you not think that should be considerably increased, to 80% rent-geared-to-income?

**Ms Hayes:** Well, I guess it does address the budgetary issue, because we strongly feel that co-ops should maintain the mix of incomes within their tenure for many different reasons because of the fact, as I just said, that a range of housing should be provided and the government should not just politically not think about those people who are not able to afford home ownership. We do not think that 50-50 is a skewed number.

**Mr Yampolsky:** Co-op housing is not designed to place the Ontario Housing Corp. It is not designed to be solely targeted, as it was early on throughout OHC, strictly at low-income people. I think some of the experiments with OHC—some of them very close to here, within spitting distance of this building—that were set up and targeted specifically at low-income individuals—we have seen some social implications of that.

I think when we turn around and look at other developments such as the one on the Esplanade, which has a mix of incomes, a multicultural mix that exists there—and I could speak best, I think, of the co-ops within Metro Toronto. When you look at the co-ops around the Christie and Dupont area—yes, some of them are targeted specifically at women, some are targeted at immigrants and refugees—they all have a mix of income levels. What that provides within a social context is the support for the people who might not necessarily have certain skills and



ilities to work alongside on a day-to-day basis with other people.

To a certain extent, if I really wanted to sound incredibly paternalistic and patronizing, I could say the poor people were learning from the rich people. I would not say that, but by turning around and segregating all poor people into housing co-ops, you are going to create nothing but another awful lot of the ghettos that we saw develop through the housing corporations in the United States. I look to Buffalo for that example.

I just want to touch on your other issue, Mr Curling.

**Ms Hayes:** Let me just finish something on that topic.

**Mr Yampolsky:** Sure.

**Ms Hayes:** I just want to add one more thing on the co-op housing. As I mentioned, we all know that women make approximately two thirds of the wages men make. A single mother who may be making a living wage but not making poverty wages would have the opportunity to live in a co-op and share resources, as Richard was mentioning, and skills with others in order to improve her life. That is an example of people making just above a certain amount of income.

**Mr Yampolsky:** With regard to your other question, I used the term "the hierarchy of deservedness" when I was talking about social assistance, where we talked about disabled more than employables and children above all else. I think you are right in your concerns around women or disabled women or visible minority women coming before whomever and both the segregation that we make within various social issues as well the divisions that come from that.

I think our position has been very clear. It is that we oppose this hierarchy. If you are going to deal with an issue, then you have to deal with it. I think that the reason it is spelled out in very clear and concise language, be it aboriginal people, whomever, and various categories, is that these people more often than not are forgotten. They are not talked about explicitly.

What the community has done by adopting the language that it has is bring to the fore the explicit demonstration that these are the groups we are talking about. We are not talking about predominantly men. We are not talking about predominantly middle-income, middle-management, upper-management people. We are talking about people who have not been availed of a number of opportunities.

I can see you are pressed for time.

**The Chair:** Yes, I am going to have to cut you off. We are half an hour over already. If you would like to pursue your questions with the deputation in the hall, that would be acceptable.

I would like to thank you for your presentation today and I hope you will get that brief to us as quickly as possible, because we do need to see it.

**Ms Hayes:** May I make a small observation?

**The Chair:** Actually, no. I am sorry, but we have another deputation that has plane connections to make and we must move along. Thank you for coming.

## ONTARIO BORDER COMMUNITIES TASK FORCE ON CROSS BORDER SHOPPING

**Ms Logan:** My name is Gail Logan. I am general manager of the Sault Ste Marie Chamber of Commerce and I am here today representing the Ontario Border Communities Task Force on Cross Border Shopping. I would like to introduce the other representatives here at the table with me this morning. On my left is Rob Schihl, who is the president of Shop Ontario, Niagara. On my right is Bob Gale from Niagara Falls.

Before I start reviewing the brief, I would also like to recognize the other individuals and the communities who are here today regarding the issue of cross-border shopping: from St Catharines, Noel Buckley and Tony Commisso; from Niagara Falls, Glen Gandy; from Fort Erie, Glen Walker; from Windsor, Mark Jacques; from Sarnia, Mike Harold; from Cornwall, Mike Metcalfe. I would also like to recognize two individuals who are here in support this morning, Tony Martin, who is the provincial member of Parliament for Sault Ste Marie, and Steve Butland, who is the federal member of Parliament for Sault Ste Marie.

The Ontario Border Communities Task Force on Cross Border Shopping is very pleased to present this pre-budget submission to your committee on behalf of its member communities of Cornwall, Fort Erie, Niagara Falls, Kingston, Port Colborne, St Catharines, Sarnia, Sault Ste Marie, Thunder Bay, Welland and Windsor. Through its various affiliations, this task force represents over 6,700 businesses in Ontario and these businesses employ more than 175,000 people in the aforementioned communities. Our purpose here today is to share information and ideas with your committee in the hope that you will recommend fiscal policies that will benefit the provincial Treasury, Ontario's businesses, our communities and all residents of Ontario.

With the assistance and support of the Ministry of Industry, Trade and Technology, small business Ontario branch, this important task force has been meeting regularly over the past year to discuss the common and growing issue associated with the anomalies that encourage Canadian shoppers and, in particular Ontario shoppers, to divert their business to United States border cities and which discourage US residents from spending in Canada and Ontario. We call this the cross-border shopping problem to reflect the two dimensions. It has been plaguing this province and our country since 1986.

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The issue is larger than one single trade sector, community or government body. It impacts such diverse areas as retailing, tourism, manufacturing, agriculture, border communities, provincial and federal revenues. It is important to note that all of these players are implicated in both the causes of the problem and the potential solutions.

We feel that the cross-border shopping problem is a symptom of non-competitiveness, and improving competitiveness may well be the pervasive economic challenge for Canada, and in particular Ontario, through the 1990s. Any solutions to this problem will require the active involvement of all interested and affected parties to become a part of the competitive team.



There have been published reports indicating the traffic count of same-day visits to and from Ontario has gone from a net inflow in the second quarter of 1987 of 1.4 million people to a net outflow of 1.5 million people in the second quarter of 1990. This is addressed on appendix 2 included with the brief. In addition, the number of people making same-day trips to the United States from Ontario continued to increase by 30% in 1990, and we anticipate the same or an even higher increase for 1991.

Estimates of lost retail sales in Ontario for 1990 are as high as \$600 million. This translates to approximately \$50 million in lost sales tax revenue to this province. This is a major blow to our retail industry and imposes many negative side effects on government, business and our communities. These lost sales have and will continue to reduce and/or eliminate retail and service sector jobs in this province. The results are devastating, including tremendous business and personal hardship through bankruptcies, lost employment, lost taxation revenue, and it places an even greater strain on our social programs, which are currently operating beyond the maximum affordable level.

Recent expansion of retail shopping opportunities and also the establishment of new outlet malls in US border towns have increased the difficulties faced by Ontario businesses. A number of these new and/or expanded facilities have been specifically targeted to attract the Ontario consumer, for example, in Buffalo, Niagara Falls and Massena, New York. In addition, there has been a marked increase in the volume of advertising by US retailers and hospitality providers in Ontario advertising media. US shopping districts which were previously depressed are now doing a brisk business with the assistance of Ontario consumers.

Ontario consumers are making significant purchases in the US of gasoline and groceries, liquor, beer and cigarettes, along with big-ticket items such as automobiles and auto parts, boats, building supplies, clothing and linens—the list goes on. Border cities in Ontario are showing signs of depression, and retail stores and service sector businesses, along with supporting businesses, are closing at an alarming rate.

There has also been a sharp decline in US tourists visiting Ontario during the past two years. Many reasons have been cited by these visitors, including the high cost of gasoline, meals and beverages—all items which are subject to considerable taxes.

Traditionally, Ontario residents have shopped in the US for good bargains; however, until recently these purchases have been offset by Americans visiting the province. Trips by Ontario consumers have been considered very worthwhile because of the significantly lower price of gasoline in the United States and because provincial taxes are not collected on their purchases at border entry points. In addition, in many instances federal taxes and duties are waived on these purchases. The result is that Ontario businesses are placed at an extreme competitive disadvantage relative to their US counterparts and applicable tax revenues are not being realized by the province.

Recent studies in border communities have estimated that every \$100,000 in lost revenue results in one lost job.

As an example, Sault Ste Marie's lost revenue of \$1 million for 1990 as a result of cross-border shopping equal to a loss of over 1,000 jobs in our community.

The Ontario Chamber of Commerce adopted the following resolutions at its annual meeting in May 1990: "that legislation be implemented immediately to bring about the harmonization of the collection of the GST and provincial sales tax," and also "that the provincial government negotiate with the federal government the implementation of a cost-effective system to collect provincial sales tax on goods entering Ontario and declared at border crossing points."

With a harmonized tax collection system for PST and GST, the federal government would be responsible for collecting all provincial sales taxes along with the GST and any duties at all border entry points. Numerous and important benefits are associated with the harmonized tax collection system. The collection of PST would add significant revenues to the provincial Treasury and assist in reducing the enormous provincial deficit. Estimates on provincial taxes currently lost as a result of cross-border shopping could be as high as \$115 million for 1991. Both levels of government would realize significant cost efficiencies through one administration and auditing system.

If consumers were required to pay all taxes and duties on declared goods entering Canada, then the cost difference between purchasing in the United States and Canada would be minimized. In addition, a single tax system would provide assistance to the business community through ease of collection and remittance to one agency, reducing their time spent and their administration costs.

The Ontario tourism industry would also receive a much-needed boost by offering refunds on both taxes to visitors before they leave the country. Tourists would simply present their sales receipts to the duty free shop at the point of departure and the provincial sales tax would be refunded along with the GST.

A harmonized PST and GST collection system would assist Ontario businesses in maintaining a competitive edge against their US counterparts during these very difficult economic times and ensure continued employment. Ontario residents in the retail and service sectors, along with increased provincial revenues. This recommendation puts all players in a win-win situation and provides a level playing field for Ontario business.

The Ontario Border Communities Task Force on Cross-Border Shopping agrees wholeheartedly with the aforementioned Ontario chamber resolutions and we urge the committee to include these recommendations in the next provincial fiscal budget.

Regarding gasoline-tax-reduced zones, retail price differences in various border communities throughout Ontario appear to vary only by several pennies per litre. You will notice on page 4 we have included a breakdown of the average gasoline retail price per litre in Canadian dollars. The pump retail price in Ontario, approximately 57 cents in the US, 40 cents.

Border communities in Ontario have lost sales in excess of 295 million litres annually. This is alluded to in schedule 2 of the brief. By reducing gasoline taxes, a large



percentage of that business can be recovered. This can be accomplished by reducing the taxes in zones starting immediately next to the US border, commencing with a 10-cents-per-litre reduction and then reducing the increments by 2 cents per litre as the distance from the border increases. This is outlined on schedule 1 of the brief.

I apologize for the numbers there. They were boxed.

The revenues lost on gasoline sales is quite significant, as outlined below. Total lost revenue is in the neighbourhood of \$116 million-plus, and that relates to lost revenue for provincial taxes, federal taxes to dealers for refining and marketing.

On page 7 we have shown calculations for gasoline tax projected revenues with a reduction in tax. You will notice the 1990 gas sales in border communities of 664 million litres realized a revenue of in excess of \$156 million in provincial and federal tax revenue. We have calculated a potential for 1991 gas sales in border communities of 959 million litres, totalling potential tax revenues of \$167,825,000.

As you can see from the calculations above, a reduction in gasoline tax through a zoning formula will realize more taxation revenue for both the provincial and federal governments. In addition, it will assist border communities in addressing the cross-border shopping problem by correcting the major discrepancy in pricing which exists between Ontario and the US. It currently causes Ontario consumers to make significant purchases of gasoline outside of the country.

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As mentioned earlier in this brief, the Ontario Border Communities Task Force on Cross Border Shopping recognizes that action to tackle the challenges associated with the cross-border shopping problem requires the co-operative efforts of both the public and the private sectors.

The business community recognizes its role in addressing this complex problem and wishes to engage government support to address the issues under its control; that is, taxation. Individual communities and businesses in border communities have already adopted a number of business strategies to assist in addressing the cross-border shopping problem. Marketing initiatives, including training and retaining of retail and service staff to provide better customer service, more aggressive marketing campaigns targeted to the local shopper as well as the potential visitor, interest-free loans to consumers sponsored by business and lending institutions, cross-merchandising of products and services, special promotions, better exchange rates for US currency and other initiatives are currently under way or are soon to be implemented in border cities throughout Ontario.

The benefits associated with a change in the provincial government's fiscal policy are tremendous. The provincial Treasury would realize in excess of \$115 million in tax revenue. That relates to provincial sales taxes, excise taxes, income taxes, etc., that would be recovered. Ontario businesses would continue to employ thousands of residents in the retail and service sectors and potential visitors would be more encouraged to take advantage of vacation experiences in our incredible province, Ontario.

Resolving the problem of cross-border shopping is critical to the province and this country, as many jobs and substantial revenues are at stake. Ontario businesses are and will continue to play their role and their part in the solution by improving customer service and competing more effectively. Government must also play its part with the introduction of more efficient and equitable fiscal policies.

The cross-border problem is a symptom of a serious competitiveness problem. However, it is only one of the many powerful forces operating in the same direction: the advent of free trade with the United States, the US-Canada-Mexico trade discussions, the coming of the common European market in 1992 and many other global political and economic changes. Canada, and particularly Ontario, cannot hope to ignore or escape these forces. The private and public sectors must participate in a common effort to boost competitiveness, and the time to build that team is now.

On behalf of the Ontario Border Communities Task Force on Cross Border Shopping, I would like to thank you for the opportunity to present our submission this morning. We would certainly be happy to answer any questions.

**Mr B. Ward:** I would like your comments on three issues. On the first issue, has the implementation by the federal Conservative government of the GST helped or hindered your particular retail sector in relation to the shoppers who are going to the US? The second question is, would a lower Canadian dollar assist your efforts? The third is, as far as enforcement of our borders to ensure that duties are collected is concerned, because it is federal jurisdiction, should that be looked at, strictly enforced duty collection, but then that creates problems because of increased lineups and the discomfort that causes to the consumer? Perhaps you could touch on those three issues—the GST, the high Canadian dollar and greater enforcement, whether you would see that as one avenue of helping or hindering you.

**Ms Logan:** You are talking about federal government fiscal policies in this regard.

**Mr B. Ward:** I just want to get your feeling on it.

**Ms Logan:** Regarding the federal government's GST, I think it is fair to say that the business community has had difficulty with implementing the GST and consumers are having difficulty with it, but they understand that it exists and that they are going to collect it. In terms of the cross-border shopping problem, it has created additional hardship for Ontario business because it encourages consumers to spend their dollars in the United States.

Federal government fiscal policy relative to the high Canadian dollar certainly would help.

Collection of duties and enforcement: We have a situation in Sault Ste Marie with our bridge. It is a two-lane bridge and we have a number of entrances into our community. If the federal government goes ahead with its Customs 2000 program and implements some of the changes to access into the country through express lanes, duty-free lanes, etc., that will certainly help avoid the



problem of lineups when you are looking at enforcement or collection of duty.

**Mr B. Ward:** So you think that would help.

**Ms Logan:** Yes, we could be urging the federal government to implement that program.

**Mr Sterling:** I just wonder if your group is aware of the revolt that is going on in Ontario now. I am talking about the revolt that Bob Rae talked about that was going to take place, after he was elected as Premier, against the GST and whether or not Bob Rae is going to—

**Mr Curling:** A revolution.

**Mr Sterling:** —the revolution we are having here in Ontario that was led by Bob Rae, and whether or not the whole basis of his revolt seems to be that he is not going to harmonize the GST and the PST. I agree with you that I think the harmonization makes a lot of sense, but I am not certain that this government can give up the revolt that we have seen take place since September in terms of dealing with the GST. Excuse me for being a bit facetious about the whole thing.

I notice that in your brief you say that the federal government would be responsible for collecting the PST and the GST. Do you think it is reasonable that because half of the tax, roughly speaking, is going to be PST, that the provincial government should pay for half the collection?

**Ms Logan:** Our task force would certainly like to work with this committee and with the provincial government in coming up with the best system of collection. We certainly feel that harmonization would be the best system, but if there is another fairer and more equitable system that reduces cost, reduces time, we are certainly willing to discuss and come up with an alternative recommendation.

**Mr Sterling:** One of the problems that you face here in order to bring forward and take some action—it is very easy for any provincial government, as we did when we were there as Conservatives, as the Liberals did and no doubt the NDP is moving to it, to place all its problems on another level of government. One of the problems we have in this committee is that we can only make positive recommendations and get positive action if in fact the Treasurer of Ontario does some things that are within his own mandate to do.

In my view the carrot to the federal government would be, "Look, you are going to undertake this very unpopular task of collecting tax at the border." What government, what politician wants to be the tax collector? Nobody does. You have to be realistic in what all of this goes about. Therefore, I think that your brief would be very much stronger if you made recommendations that in fact the Treasurer of Ontario would be responsible for taking action for.

The harmonization is one thing, but the other part of the fact of the matter is that any government which implements a collection at the border is going to be very unpopular. There are a lot of consumers who like cross-border shopping, so why would the federal government, heading towards an election, consider angering these people who are coming across the border?

It is logical and it is reasonable, but it is akin to many of the other things that groups come in and talk about. I think it would be reasonable for the provincial government to provide half the collectors at the border. Why would they not have the provincial government people helping them out at the border collecting this tax? I think they would, in a lot of ways, save the federal government if we are willing, as a province, to take some leadership and responsibility for collecting this tax.

The other question I have is that I represent the riding of Carleton in eastern Ontario and my whole riding would be more than 50 kilometres from the border. There might be a small portion of it that could be within the other zone. How do I explain to my people in my riding, the 90,000 people whom I represent, that the people who are living closer to the border are not paying their fair share of taxes?

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**Ms Logan:** Currently the residents of this province are subsidizing those who are going across the river and purchasing gasoline. We know from our Ernst and Young study in Sault Ste Marie that gasoline was the driver. That was the primary trigger for why people were going across the river and making these purchases. In addition to the gasoline they were purchasing other items. In a very pointed question to consumers, we asked them, "If gasoline were equally priced or more favourably priced, would you be shopping to the extent and the level you are?" Their response was no. They would prefer to shop, to spend the dollars in Ontario. Unfortunately they want to make the dollar go as far as they can and they have to spend it across the river.

**Mr Sterling:** I understand the problem, but I have a constituency to represent. They are not any more interested in paying taxes than the constituencies your group represents, which are all border towns. How do I explain to my people that you have a special break? I guess the answer would be in terms of an overall reduction in the amount of tax on each litre of gasoline so we could be competitive in that area. I think that would be a more reasonable response.

The 24 cents per gallon or per litre that we pay in Ontario: Can you answer how much of that is federal and how much is provincial?

**Mr Gale:** Currently we have the GST now, but 8 cents is excise tax, 11.3 cents is provincial tax and on top of that you have GST at 7%. You would take your whole sale cost. You would add 8.5 cents federal excise tax—

**Mr Sterling:** It is 24 cents basically that we are dealing with.

**Mr Gale:** Approximately.

**Mr Sterling:** You are saying that 11.3 cents of that is provincial.

**Mr Gale:** That is on no-lead gas.

**Mr Sterling:** I do not think a penny or two is going to make a difference.

**Mr Gale:** I agree.

**Mr Sterling:** The difference is 14 cents a litre, basically.



**Mr Gale:** The difference I tabulated last night at 6 o'clock. I am from the Niagara region. I am a retailer-wholesaler in the Niagara region and throughout Ontario. Taking a lot of facts into consideration, with the US dollar C\$1.17, \$1.21 is the best price that I know from people to be able to buy in Niagara Falls, New York, yesterday. Converting it all over—trust my figures, I hope—with the American tax, the difference in tax is 11.69 cents Canadian per litre.

If you take the cost in Niagara Falls—I am talking Niagara River border. I apologize for not being up to date in Michigan or taxes around there, but around the Niagara border right now, in Fort Erie it is about 53 cents retail price—54 cents in Niagara Falls. The difference right now with the American price at \$1.21 works out to 37.8 cents a litre. That is in Canadian dollars, Canadian litres—37.8 cents if you go over the border. The difference, add on the 1.19 cents, brings you up to about 49 cents and change, 49 point some-odd cents. For the difference of five cents a litre there, people are not going to go over the river in droves.

I note that there is no doubt Canadian businesses are going to cut some of their profits on some of this, but the volumes have gone down so much in local things that the only way you can justify it is by increasing your price. Otherwise you close the stations.

**Mr Sterling:** Do you know, of the 10 cents of tax in the United States, how much of that is federal and state tax?

**Mr Gale:** I have it broken down here if you wish to write it down. This is US gallons. If you want all their taxes—

**Mr Sterling:** No, just the percentages. You have 10 cents per litre of tax in the US, in your brief on page 4. Is it nine and four or is it nine and one, or do you know?

**Mr Gale:** I only have what happened yesterday. I do not have that brief. I know federal excise tax in the United States—

**Mr Sterling:** Try and keep it as simple as possible.

**Mr Gale:** I cannot break it down. I have to talk US gallons; I am sorry.

**Mr Sterling:** It does not matter whether it is US gallons or not. How much is federal and how much is state?

**Mr Gale:** Okay, they have different taxes. Federal excise tax over there is 14.1 cents a US gallon. Everything else is state tax except for a superfund and tank-testing tax they have of 0.4 cents, approximately, a US gallon.

**Mr Sterling:** Forget that one. What is the total of the state tax?

**Mr Gale:** Approximately 14 cents.

**Mr Sterling:** So it is half and half, then?

**Mr Gale:** Approximately.

**Mr Sterling:** Okay. You mentioned that the cost of gas down in your area is 53 or 54 cents. The cost of gas in Ottawa is somewhere around 63 to 65 cents a litre. How do I go back to my people and explain that we are going to give a break to people who are paying 54 or 55 cents a

litre? That is very difficult for me as a provincial politician.

**Mr Gale:** Will that affect them, though? You people in Ottawa, will that affect you? They are not near a border point so I do not think this will affect them at all.

**Mr Sterling:** They are paying 65 cents a litre in gasoline. The news that you would like the provincial Treasurer to come out with is that they are giving some kind of break to border towns. Their gas is going to go from 53 cents to 48 cents a litre.

**Mr Gale:** The bottom line on this, we propose, is that you will generate more tax dollars because of this. That is why we say it. So if you present it that way, I think they will understand it. If it does not do that, then I agree with you, we are totally wrong.

**Mr Sterling:** I think the other factor that you perhaps are—I think there is a good argument in what you are putting forward, but I think that most of the populated area of Ontario is within 200 kilometres of the border anyway, so therefore your argument may have more validity if in fact the population was spread farther north into the province.

I just would have a very difficult time supporting your proposal in my constituency and explaining to my constituents that the people down in that area are getting a break of five, six, seven cents a litre and the price was dropping from 53 or 54 cents a litre down to 45 or 48 and we were still expected to pay in my area, my 90,000 constituents, somewhere around 65 cents a litre.

**Mr Gale:** What we would hope for is the way it is explained, that it will generate more tax dollars. It will not affect them at all because it will generate more tax dollars. That is what we are hoping. We feel gas—

**Mr Sterling:** Would my 90,000 constituents get a check in the mail from the Ontario government?

One of the problems when you set up tax regimes which are not universal across the province of Ontario is that you get immediately the problem of people looking over your shoulder at what is happening in the other area. You get enough problems in this province by giving northern Ontario a special break on gasoline and licence fees and that kind of thing, but in general people will support that because of the great distances people in the north have to go and it affects relatively few people.

Anyway, I am interested in your proposal. I think, quite frankly, what we should do in Ontario and Canada is that both governments should reduce their gasoline tax to all of the people and get their revenue some other way.

**Mr Sutherland:** I am not from a border community. I am, I guess at the closest, an hour and a half away from Sarnia, but I am constantly amazed at how many people within my community make weekend shopping trips across into the United States, into Michigan, into New York.

I guess the question I want to ask very simply is, do you feel that many people in Ontario are no longer willing to pay the price of being Ontarians or being Canadians in the sense that in many ways some things are more expensive here because we have a much different value system



of what we feel is important, that makes us different from the United States, makes us Ontarians, makes us Canadians, and the values we have placed on different things? Is it your sense that people are no longer willing to pay that price?

**Ms Logan:** I would not suggest that they are not willing to pay the price. I think we, as communities, and the government, etc. have to communicate to them what in fact they are paying for, where we are different in the kinds of things that we do have that are better here in Ontario or in Canada versus the United States.

You talk about weekend shopping trips. Weekend shopping trips in some cases will continue, depending on the area. We are talking primarily about the day-tripper or the same-day visitor who is going over, sometimes a couple of times a week, but at least on a weekly basis and making significant purchases. There is a difference between the vacation traveller and the same-day tripper.

**Mr Sutherland:** I guess I just want to clarify. I get the sense that there are more people, though, at least in my community, who are not going for strictly a vacation. The sole purpose of going away for the weekend is a full shopping trip, to load up as much as possible in that weekend to bring back. If they are able to avoid the duty, then they are doing great. I know the main impact is right on the border communities, but what I am trying to say is that I also think it is growing even in the interior of the province and that concerns me as well.

**Mr Schihl:** If I could just add to that point, I live in a community called Port Colborne. It is about a half-hour from Fort Erie. I did a quick survey check of all the banks and asked the question, "How much American money do you sell on a weekly average?" Out of the nine banks that we have in Port Colborne, every bank sold to the maximum that it could sell in American funds. So with a little, tiny community a half-hour from the border, we are talking of a very conservative figure of about \$7 million leakage from that community. That is just the hard cash that is purchased. Let's not discount the travellers' cheques and use of credit cards, the amount of cash that is exchanged all over the border. So we have, yes, an awful lot of shopping going on.

1230

A lot of the clerks told me that in dual-income families, where the husband and wife both have a paycheque, one cheque is devoted specifically to US funds. Many families in my surveys are saying they are saving upwards of \$300 a month by shopping in the United States. It is difficult for us to sell them on the fact of shopping locally until we can get some of these items that have a lot of price differential, gasoline being one. We have to get rid of these loss leaders that are pulling our people across the border. We have to get more on an even playing field.

We address them on the social aspects of our country. The diehard cross-border shoppers do not really want to listen to that point. It is not low-income or middle-income families. We are seeing high union workers who can afford these products taking their paycheques across the border. So it is quite a mystery, quite an equation. We have identi-

fied specific things that we can change locally in our communities and some external things that we will need the government to help us with.

**Mr Phillips:** I sympathize very much. I think you are kind of on the leading edge of the challenge for the future and I think you have stated it well in your brief on page 1. You feel the cross-border shopping problem is a symptom of non-competitiveness and improving competitiveness. I think you are putting it into a broader context, but there is no doubt, in my experience, that you are facing a crisis. I think what you are recommending to us are kind of short-term solutions while the country and the province get some of the longer-term solutions. Our party just spent the weekend in Niagara Falls, Ontario, so I think we learned a first hand of some of the challenges.

First, I would not mind a comment on something that is not in your brief, a side issue and that is mail order, which may not impact on you, but I gather it is a big growing industry coming out of the US.

In your brief you say \$600 million, which surprised me, how low it was, but I think you said \$900 million when you were speaking. I was surprised it was only \$600 million, because my impression is that it may be greater than that. Was it \$900 million you said when you spoke?

**Ms Logan:** I thought it was \$600 million.

**Mr Phillips:** Did you? Okay. In the brief it is \$600 million; I thought it was \$900 million.

Frankly, I do not know enough about the details of this to know to what extent this is an enforcement problem versus a kind of—you need some tax changes. You must assume more knowledge on our part, on my part, than you have. Could you just explain for us, if someone takes a day trip, which seems to be the major number, what are the legal requirements in terms of declaration and payment of duties and taxes?

**Ms Logan:** Day-trippers do not have exemption under federal law. They are required to declare the items that they are importing to the country. You must be out of the country for 48 hours before you receive a \$100 exemption. From what we understand in talking to the federal government, depending on the situation going on at the border on any given day—the border has to deal with, of course, the customs and immigration issues, it has to deal with the duties issues, it has to deal with gun control, drug seizures, any number of other items besides people returning to the country with goods—there seems to be a level of tolerance in terms of goods that are coming back. Some days it may be \$10, other days it could be \$30 or \$40. Again, from what we understand, it relates directly to what is going on at the border at that particular time.

Enforcement is part of it, but we have also talked about the necessary changes that have to happen with taxation. We have talked about the need for business to do its part in terms of marketing, customer service, etc. It is a problem that has to be tackled by all individuals involved. Our task force has had discussions with the federal government. We will be presenting this brief to the federal government as well and we will continue on all fronts. We hope to get everyone talking the same tune and work-



g on this problem together, because that is the only way at it is going to be solved. There are roles for each one of the players to take.

**Mr Phillips:** I was surprised your brief did not talk about enforcement. My vision is that an awful lot of people in your jurisdiction, Niagara Falls, on Sunday morning buzz across and—

**Mr Gale:** I do not think we can complain, sir, about enforcement.

**Mr Phillips:** Enforcement is not a problem?

**Mr Gale:** I am not saying it is not a problem. It will always be a minor problem, just as there are problems in all industries. But it is not the one we are trying to tackle here.

**Mr Phillips:** So it is just basically your two recommendations are—

**Mr Gale:** It is easy to say we need more officers. Obviously, money has to pay for it. I think they are doing a fine job in what they are doing. They seem to be clamping down more. They have the computers in there now, I understand, and they have all systems there. Mind you, officers are not collecting provincial tax and that, but they have all the systems. But that is not what we are clamping down on now. That is something that I think is a minor problem compared to what we have come up with here.

**Mr Phillips:** Okay, good, so it is just the two, the provincial sales tax and some—

**Ms Haeck:** Relief on gasoline.

**Mr Phillips:** Temporary relief on gas?

**Mr Gale:** I am sorry to interrupt you there. Just to fill you in, in Quebec—I am not sure if it has been brought up—there is relief along the provincial borders there for a 10-kilometre distance up to 4.8 cents a litre, just to let you know.

A year ago, with the last government in, I sent a letter to Michael Wilson and Robert Nixon, both passing the buck to each other saying it is the other one's fault. But really I stressed on the provincial level because this was a provincial thing done by Quebec. I have understood through verbal communication that this is working. I understand it is a problem with enforcing and that is what Robert Nixon said, and it will be. There is nothing we can do. But I understand that people in Hull, Quebec, and other border points in Quebec located in that area still will buy their gas there.

Mind you, if you are going to Ottawa you will buy your gas there. It is cheaper. Just like here; if you are going to Buffalo, New York, anyway you are going to buy your gas. What we are trying to do is keep the people in here and not use gasoline as the reason they are going over to buy everything else. That is why we suggest the gradual system, so that somebody in Hamilton might say, "Okay, in Grimsby it might be a bit cheaper or in Sault Ste Marie." I do not know how you go in, but for one thing, we are trying to get the incentive away from them to say, "While we're there, we'll buy everything else."

**Ms Haeck:** I have had, in one sense, a bit of an advantage because I come from St Catharines. Mr Commisso,

who is sitting in the audience, made this presentation to the St Catharines chamber of commerce.

If I may also raise the issue of dealing with the gasoline prices in the north; the opposition members here, during the legislative session we just came through, made the issue of the price of gas in the north a major issue for our government. I know our Energy minister is seriously working on this issue to address the issue of the price differential. I have to concur with Mr Sterling that obviously setting up any kind of system whereby it looks like a border community is reaping a massive benefit is not going to deal with even some members of the trucking industry who have to travel in the north. It is a concern for them to realize that the prices are different. I raise that with you as maybe a means of however we are going to be able to sell something like this, but the cost of gasoline really is a major concern for northerners.

**Mr Gale:** May I address that?

**Ms Haeck:** Sure.

**Mr Gale:** One of the problems I have here with the north and with the pricing, as you know, is that there used to be probably about 15 major oil companies 30 years ago. Now Petrocan has swallowed up Gulf, Esso, Texaco, whether good or bad. I think competition caused a lot of problems with pricing in the north. If you can bring gas with GST in at 47, 48 cents a litre over the Buffalo border that is selling for 60-some-odd cents in Ottawa and there are no other taxes to be paid along the way, somebody is making some money there.

Does competition bring it down? I do not know. That is not an issue to be discussed here. But I think there are a lot of problems with competition. Petrocan, Esso and Shell are the bosses in petroleum. I am not trying to get a petroleum pact here. I am an independent. But you know the chartered banks run the banks. The three big guys run the gasoline. I am not saying that you could not undercut them, but I have a chain of gas stations in the Niagara region. If Esso wanted to go in at 10 cents a litre for about a month, I would be out of business pretty quick.

**Ms Haeck:** The other question I have relates to a concern that you have not mentioned here but alluded to in some respects. A lot of the local farming community has come to visit me. I have obviously had opportunities to hear presentations from them in other arenas. They are very concerned about the effects of free trade, as well as the importation of food and the controls that are put on that, be it via the free trade agreement or the whole issue of grocery shopping. That, in many respects, is not addressed here, the kinds of controls that we can put on the importation of food into this country.

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**Mr Schihl:** We have addressed the free trade agreement in another report to the federal Liberal task force on the economy. It was very brief and it just mentioned that perhaps in lieu of what is happening with this phenomenon of excessive cross-border shopping, perhaps the free trade agreement in areas of agriculture can be focused more upon in lieu of this, what is happening, and perhaps the free trade agreement could be looked at and adjusted in



lieu of what we are seeing happening now. That is about all the study that we—

**Ms Haeck:** How do you even deal with the questions farmers are raising, that the foods they grow are controlled by, say, the pesticide usage and what have you and how-ever they may be sold in the stores? The food that is coming across the border either in large container trucks or in fact by individuals does not need any of those controls.

**Mr Schihl:** I am afraid you are out of my area of expertise as far as that sector is concerned.

**The Chair:** Can I interject at this point? The subcommittee has decided to bring to this committee a recommendation that we hold full hearings on the cross-border shopping at a future date. What we are looking for here at this point are specific recommendations that can be put to the Treasurer that would give him some guidance in the immediate budget. While all of these issues are extremely important, perhaps we could have those brought up at those future hearings that we do intend to have, provided the committee agrees to have them. So if I could just have the last question from Mr Hansen.

**Mr Hansen:** I am from the Niagara area; I know exactly what is going on. We touched on a few things, but one thing that I do not think came out is that Mr Sterling has to realize that in the area he lives in, if he is going to have tourists in the Ottawa-Carleton area, if we cannot get them across the border they are not going to be spending tourist dollars in Ottawa-Carleton. So it is very important that people are able to get in easily enough, not have to wait two hours to get across the bridge. The rumours are down in the States, "Don't go to Niagara Falls or Fort Erie because you'll never get across and you don't know what the price of gas is up there in Canada." What we are having is a ripple effect all the way through the States.

I think my friend Tony Martin, also from Sault Ste Marie, depends on tourist dollars. I think the tourist dollars in Niagara Falls are drying up. I have heard so many times that the people who come to the Canadian side from the American side fuel in the States, come over and look around but go back and eat and stay at a motel or a hotel in the United States. I think I would like you to comment on that. This is why I am sort of bringing it up, because I do not think the rest of the people of Ontario know the seriousness of the problem we have at border towns.

**Mr Schihl:** Yes, for the Niagara region, to speak on behalf of the Niagara region, we are heavily dependent upon tourism, the tourism dollar. It is, I believe, two thirds of our economy. We are seeing tourism happen, but really it is now growing stronger from Toronto to Buffalo with these cross flights, using the airport systems. We are seeing more and more weekend getaways of Toronto people to Buffalo and Buffalo people to Toronto. It is like leapfrogging over the Niagara region that needs those dollars.

We are not seeing the American licence plates. We are seeing them at border communities, maybe more in Fort Erie and Niagara Falls, but as we go just 20 minutes to

areas of Welland, Port Colborne, St Catharines, we just do not see them. That has been brought up in many respects that they do fill up there, come over, maybe take a bit of scenic drive, but if it gets down to spending money they just hop back and spend their money in their own communities. The cost of meals, accommodation, liquor, cocktail and beer are a lot more expensive than what they are dealing with and they just do not see it as an appealing thing.

So the tourism industry is drying up. I have friends who have motels in Niagara Falls who are seeing these closures. We are seeing small businesses close. We are here to fairly cry out that the areas such as the Niagara region and many border communities need help. Jobs lost really mean reductions in the amount of income tax that the government can collect from people who have \$50,000 jobs who lose those jobs because of plant closures and are then on the social system. The amount of income tax that can be reaped from that person has declined significantly and we are seeing many of these jobs being lost.

**Mr Hansen:** One final question, and I think it is important that we talk about tourist areas. Tourist areas have had Sunday shopping. What is going to happen to the area right around the falls? Let's say Welland is part of the area. What will happen if there is no Sunday shopping in the grocery area? Can you just give the committee an idea of what is and what is up and coming?

**Mr Schihl:** I am really not a retailer. I have been working in this position as a marketing person trying to make some sense out of what to market here. I am afraid I cannot make a statement on Sunday shopping. I know there is more and more of it happening in the United States, and I think there are more and more Canadian travelling across the border to take in some of these shopping excursions on Sundays.

I think for Canadian businessmen to survive into the 1990s, they will have to perhaps practise some methods of doing business that are disturbing to them. They have to adapt and change, and perhaps being agreeable to open up their doors on Sunday may be part of that.

**Mr Phillips:** That is up to the government.

**Mr Schihl:** Not unless the government approves it certainly.

**Ms Logan:** Just in closing, we really appreciate the opportunity to speak with you today and to bring you information on the seriousness of the cross-border shopping problem. We appreciate that you are going to form a subcommittee, if that is approved, to look into this closer. We would be very happy to provide input and be available as a resource to that committee. You can certainly contact myself or any other representatives from the Ontario Border Communities Task Force for that input.

**The Chair:** Thank you. I am sure we will be in touch and thank you for your presentation today.

The committee recessed at 1248.



## AFTERNOON SITTING

The committee resumed at 1347 in committee room 2.

EDWARD KOLODZIE

**The Vice-Chair:** Would you like to start by introducing yourself?

**Mr Kolodzie:** My name is Ed Kolodzie. I am from the city of Oshawa. I am here as a private citizen. My credentials are varied. I am a professional engineer. I also act as a consultant to the Federal Business Development Bank in areas of small business. I lecture part-time at a couple of the colleges around and do some private consulting. I have also been offered a position as a professor in one of the community colleges in the greater Toronto area starting next fall. I am a former regional councillor of the Durham region. I sat on regional council for 10 years. My thrust on regional council was productivity improvement and cost reduction, and that is my thrust today.

I would like to start by quoting Bob Rae. Last Saturday he said: "The first phoney path to go down would be to respond to every crisis by simply throwing as much money as you can at it and saying, 'By God, we are really at it now.' That is not going to be the approach of our government." I was very delighted to hear that, because if he is not going to throw money at the problem, then he is going to solve the problem some other way, and I hope to present you with some ideas today.

I might mention that I spoke to this committee a year ago. I have brought my presentation from a year ago and the report of a year ago. There are only two common threads of the membership. All the membership has changed and just the two research officers are still here—maybe they can remember me—David and Anne. They are the only ones still here.

I also spoke to the cabinet about 15 years ago under the PC government, so this is the third time I have tried to get my message across, each one with a different party in power. I suggested quite strongly last year that they make some changes, and the changes have come about: We have a new government, so maybe somebody paid attention.

One of the major points—it is on the first page of that small handout—is that if you consider the career lifespan of a civil servant to be approximately 40 years, if you take increasing wages and benefits at about 6% and if you take the average salary of about \$30,000 a year, the accumulated cost of each civil servant will be \$5 million. That is the accumulated cost, because at 6% money doubles in 12 years. At 6% money doubles in 12 years. That is one of the first points I want to get across: At 6%, money doubles in 12 years. When I play the role of an academic, to get things across I usually say them three times to make sure it gets home. Some of this is explained in a number of published articles which I will hand out to you at the end. Conversely, if you eliminate a position, the savings are phenomenal; they are just phenomenal. You cannot deny those figures. I have used some very basic points.

So what do you do? You have to reduce the head count. You have to reduce staffing. You must do that if you want to control the deficit. It is that simple, reducing head count. How do you do it? There are some pretty drastic ways of doing it and there are some simple ways of doing it. The first thing I strongly recommend is that you put a freeze on all hiring for the next 12 months. Any new positions recommended, can them; if any people leave, do not replace them, and you get some control.

This can be done. When I was on city council in Oshawa, we did it for about five years. We brought our head count down about 10% while our productivity increased. I did some comparisons with other municipalities in the region and I found out that the town of Scugog was the most productive. They had the fewest civil servants per capita in the population. So that is one point: Put a freeze on hiring for the next 12 months.

You can do some retroactivity. You have done it with the landlords. So retroactively to 1 October 1990, use that as a staffing level. Maintain the staffing level of each ministry at the October 1990 levels; how many civil servants were on staff, not how many positions. That could be your target.

The next point: If you put similar ministries in groups of three or four, you can reallocate staff resources between the ministries. If somebody has a vacancy one place, it can perhaps be filled by somebody in another place who is not too busy. It is easy to be busy, but what do you accomplish? We can all be busy, but what do we accomplish?

The next one is a bit of a loaded one. Can you not put one elected person in charge to give the final authority to monitor staffing levels? Say, every Monday morning produce a report or tabulate a report, "This is the staffing level." Yes, you can. We did that at the city of Oshawa. We monitored every month. I wanted to put it in every week, but I was happy to get it in every month. There is a little objective every month to try to bring the staff down to certain levels.

You can also place similar action on the agencies that come for a handout. There are a lot of them. They are lining up behind me and before me. They want money. I have not come for money. I have come to help you control the deficit, to reduce the deficit, and that is different. My background is industrial engineering. I got a scholarship to a university in the States. I worked at General Motors; it provided me with a scholarship. I had some exposure to different professors, and at the age of 19, 20, they taught me certain things. I have been able to keep these in mind and try to get it across to the younger people. Why is that?

I will interject. I took this out of Saturday's Toronto Star. I will have to show this to you. These are the positions the civil servant bosses are asking to be filled right now. Some of the jobs titles are very creative. Why do they want these positions filled now? Very simple: to have a higher head count for the new budget year. These positions are on the books but they are not filled. They want to fill



them by, I guess, 1 April. That is why you have to go back to 1 October with the staffing levels. Some of these positions are replacement, but I think a lot of them are newly created. They represent probably \$1 million per year: \$55,000, \$58,000, \$59,000, \$56,000, \$44,000, \$55,000—all kinds of them.

In conjunction with that, remember I was saying you have to not only control the civil servants in the province, but you have to control the agencies where you are giving out the money. In the same paper, I took a list of all the agencies that depend on a handout, or part handout, from the provincial government. In Saturday's Toronto Star—these are the ones. I might have to stand on this chair. In Saturday's Toronto Star—

**The Vice-Chair:** Sir, could you get up to the mike? It is important that it is all recorded.

**Mr Kolodzie:** In Saturday's Toronto Star, there are about 40 positions representing another \$1 million or \$1.5 million per year—not a single position advertising for a productivity specialist. Nobody asking for an expert like me to control staffing levels. Why? Why? Why? Lack of knowledge. People do not know the principles.

Going down to the next point, if it is absolutely necessary to hire a person, as in an emergency—what is an emergency? You can create an emergency pretty quickly but, still, is it necessary? Somebody says, "Okay, we need a person because of this, this and this." Have the minister approve the position—the head honcho of the ministry, not the deputy but the minister. Then, if you really want to take it further, have this committee approve each position, the Vice-Chairman of this committee approve each position. That would give a lot of power to the elected people, and that is where the power should be.

As I said, I was on council for 10 years. I know what it is like. Regional council, for those who came in late.

That would change the tone. Then, if you work it properly, each position should be justified by work measurement techniques. They probably are not even practised around here. Just the one that shouts the loudest gets the position.

#### I400

Positions can be easily justified, but are they necessary? Ministries are advertising right now to fill positions. I gave you that big list of positions there. They are advertising now to fill them before the new budget year so staffing levels can be a higher base. It is done; I know it is done. Nobody is advertising for a productivity expert. Does anybody understand principles of work measurement, of productivity improvement? Not too many people around here do, because it is not practised.

What is productivity? What is work? Can you answer the question: Is it necessary? You can do a job very productively, but it is useless if nothing happens to the work. What is work simplification? It has been around for 60 years, five simple steps. What is efficiency? What is a job work standard? What is a good method? What about span of control? Do you understand what that means? What is a level of bureaucracy? Eliminate levels of bureaucracy; do not create them. Widen the span of control.

Bob Rae has a pretty wide span of control, 29 or 30 cabinet ministers, all reporting to him. Each cabinet minister has one deputy and the deputy has two assistants or three assistants and each assistant has one or two people. Those are extra layers of bureaucracy. Narrow spans of control. You can set an objective: span of control of every manager must be seven, eight or 10 and you can work towards that. As people retire or quit, then you reorganize or reallocate the people to reduce the number of bureaucracies. Remember, if you measure work, you will have less work to measure.

Those are my points. I hope you note a couple of questions. There are 40 articles in here elaborating on different points I have made, especially this one about how each civil servant is going to cost you \$5 million—each one—in accumulated costs.

**The Vice-Chair:** Mr Curling, did you have a question?

**Mr Curling:** I did not have, but as I have been asked. You said the bureaucracy should be reduced. In reducing the bureaucracy, do you feel there are any programs that should be cut in the process?

**Mr Kolodzie:** No. You reduce bureaucracy; you do not have to even touch the program. You can still have the program. The bureaucracy that remains will be more efficient and they will be happier to have less time to complain.

**Mr Sutherland:** Your presentation is interesting. You talk about what you did at Oshawa but, with all due respect, I am just wondering if you have a full grasp of the size of the provincial government. Oshawa is one of—what?—over 800 municipalities in this province. For a government to be able to serve people and keep some degree of accountability—because, as you know, we transfer a lot of funds to different organizations, agencies, municipal organizations—for the public to have trust that we are keeping accountable unfortunately requires some bureaucracy and, unfortunately, sometimes that may seem extremely large.

There are a couple of questions I have. While you point out \$5 million over his career for each civil servant, you are basing that on a 40-year career. You must realize that many people come and go and are not going to work a full 40 years, so it is not always the \$5 million.

**Mr Kolodzie:** But the position is still there.

**Mr Sutherland:** Okay. I guess the other point I want to make on this issue is—sorry, I think you—

**Mr Kolodzie:** What is your question?

**Mr Sutherland:** I am getting to it. Sorry. I lost my question. Go on, and if I can remember—my apologies because I had several.

**Mr Fletcher:** I think you are proving his point, Kimble.

**Mr Sutherland:** Oh, I know. Your point about having one elected official to look after all the human resources.

**Mr Kolodzie:** Do I understand the size of bureaucracy?

**Mr Sutherland:** Yes.



**Mr Kolodzie:** Yes. It is about 80,000: tremendous potential for cost reduction, to wipe out the deficit, tremendous potential. How many hours of work do they work? How many weeks a year do they work? People want to feel they accomplish something every day. They are happier.

**Mr Sutherland:** I do not disagree with you about that. I remembered my question.

**The Vice-Chair:** One question.

**Mr Sutherland:** Okay. You made the point that there should be one elected official to look after that. As you know, we have a committee sitting next door, government agencies, that is responsible for how many appointments?

**Mr Stockwell:** Five thousand.

**Mr Sutherland:** Approximately 5,000.

**Mr Kolodzie:** One person to monitor.

**Mr Sutherland:** My point is that with 80,000 people—when you were in Oshawa, could you monitor half the population of the city of Oshawa?

**Mr Kolodzie:** It is how you organize, how you do it. You can do it. GM does it. They have 250,000 people and they are reducing their staffing levels and increasing productivity, in Oshawa, at least. They are producing twice as many vehicles with half the number of people.

**The Vice-Chair:** Okay. Thank you for your questions and thank you for your time in appearing before the committee. We will look at your major points and study them in committee.

**Mr Kolodzie:** I know what you will do with it.

**The Vice-Chair:** They all are important, sir.

**Mr Kolodzie:** I understand, but I had to come up and make my pitch. I hope something stuck with somebody.

#### ONTARIO SOCIAL ASSISTANCE REFORM COMMITTEE NETWORK

**The Vice-Chair:** Would the chairperson, Mr Hayday, come forward? You are from the Ontario Social Assistance Reform Committee Network.

**Mr Hayday:** Am I correct in assuming that the written copy of my brief has been circulated?

**The Vice-Chair:** It is on its way around.

**Mr Hayday:** Thank you. While I do not intend to read my presentation, I did want to provide you with another way of thinking about it, so the written version is maybe of some help. One never knows how these presentations fit for you as a piece, in terms of that which it follows and that which it precedes. I know you are facing a difficult time in terms of making some judicious recommendations about where to steer the budget for the province in a way that would be helpful over both the short term and the long term.

My specific interests have to do with those aspects of the budget which pertain to social assistance or, as it is more commonly known, the welfare system in the province of Ontario. Briefly, let me tell you that the Ontario Social Assistance Reform Committee Network is a coalition of organizations and individuals that came together as a follow-up to the release of the Transitions report, which

was released under the chair of George Thomson and represented a review and a series of recommendations for an overhaul of the welfare system in the province.

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There are a couple of interesting facts which I want to provide you with an overview of, just by way of setting the stage. Social assistance case loads in the province of Ontario have grown for 10 years. They began to grow significantly during the previous recession in the early 1980s, they continued to grow during seven years of record economic growth in the province and they have accelerated even more dramatically in the last nine months.

This forces us to look at some serious questions about whether or not we are developing systems that share both the economic wealth and the financial opportunity in the province in a way that is equitable, in a way that systemically makes sense. If we see case loads grow during recession and then we see case loads grow during boom times and then we see case loads continue to grow during recession again, it forces us to wonder about what our system is doing.

Certainly there are many complex factors, and I simply want to present some recommendations that pertain to a few of those complexities as we begin to try to unravel that problem. The Transitions report, which many of you, I suspect, have copies of, if not had an opportunity to read through at some level, runs some 700 pages. It has 274 recommendations and weighs about three pounds. It is hard to wrap your mind around something that is of that complexity, which only represents one aspect of Ontario's budget.

Briefly, that report spoke to three aspects that I would like to highlight. It spoke to eligibility, to adequacy and to opportunity: who is eligible for assistance in the province, how adequate is that level of assistance and what kind of opportunity is there in our safety net to help people rebound from a necessary period of time of support into something that is more mainstream, more helpful and more of a contributing factor to the economy of the province.

Now the Thomson report or Transitions, as it was known—a name we have protected—spoke significantly to that latter aspect. The system had to have opportunity. The first wave of reforms addressed some needed concerns in terms of eligibility and adequacy. But as a colleague of mine has pointed out, in some ways what we have done is created a waiting room that is larger, that is more comfortable, that can accommodate more people, but we have not built any exits out of the waiting room. We have not built opportunity mechanisms that help people move as they declare themselves off of the system and into some sense of reliance.

We know as a related topic from the findings of the Ontario Child Health Study that children who are living in families where there is a working parent, albeit a working-poor parent, have a much better life trajectory ahead of them than a child living in a welfare family when you hold the dollars exactly constant. The same amount of money gainfully earned as opposed to earned in a dependent manner leads to significantly different life



chances for the children in terms of everything from school completion to psychiatric disorder. It is not just the level of income; it is the source of the income.

I think that has to create some sense of urgency as we plan for the economic recovery of the province and we look at the marginalization of something in the order of 13% of Ontario's children who are dependent upon a welfare system that does not have sufficient spring.

With that as an introduction, I would like to speak to what we propose would be some of the ideas we have which we think this committee could provide some support for and some leadership for in its deliberations. We have in our network activities forged some partnerships with private and public sectors, recognizing that no single sector has the solution. The public service, as I suppose you have just heard, does not hold the solution, nor does public spending on its own represent the total wealth of the province or the total sum of ideas for innovation in the province. We know that we need partnership and we have crafted some of those early examples which we think bear replication.

Let me set out in practical terms one more fact. In rounded dollars, a single parent who is dependent upon social assistance in the province will receive somewhere in the order of \$15,000 a year, not counting other transfer payment services which they may need or avail themselves of. If, through a series of projects that help individuals join or rejoin the workforce, you have something as low as even a 20% or 30% success rate in terms of helping individuals move back into some kind of contributing labour force participation—it does not need to be an 80% success rate to be cost-effective. As low as a dedicated 20% to 30% success rate is a cost-effective system if those resources are devoted specifically to what we have described as an opportunity planning function. But if you do not plan the function, if you do not organize the resources to accomplish that, it is simply a pile of words to say that a 25% success rate would be cost-effective.

Some of the examples that we have begun to put together are on a project known as Upstart, which is, I guess, a play on the words "start up." Upstart is a joint venture involving two non-profit organizations, one public sector, one private sector, specifically set up to fast-track individuals from social assistance into jobs that have career options rather than what might be described as service sector jobs that are more closely related to minimum wage and not necessarily to real economic growth in the province.

That kind of project has an appeal for a number of the organizations we are working with that are forecasting a labour shortage in certain white collar positions. But the partnerships have not previously been forged. We would recommend that the Treasury monitor the success of that kind of project and in fact consider replicating it in other parts of the province.

We know that the success of projects such as Upstart depends on innovation as well as some serious addressing of the barriers to participation in the mainstream of society, a mainstream that requires adequate housing, adequate child care and an adequate sense of future. Some of the current barriers to that are conundrums which I suspect

each of you individually would find some disbelief about if I could show you the detail.

I will not take your time to show you the detail now, I guess I will invoke some sense of trust about that, but suffice it to say that rental agreements within the Ontario Housing Corp represent myriad complexities and categories which someone with a university degree would find daunting to understand and to maintain some confidence that one's rent would not be jacked up within 60 days of taking gainful employment.

Although the letter of the law says that, the clawback regulations are so timed and so intrusive that there is a perception that if you declare income, nay, if you actively seek income, you will be pricing yourself out of a housing market. We think that the rest of the province is entitled to some kind of lease protection, if not three years, something less than that, but certainly something more than 60 days. 60-day leases do not inspire a lot of confidence in one's ability to afford housing in the province. That is one example.

A specific recommendation then is that we are suggesting that the OHC look at multi-year agreements. We know that there are some programs which have been declared announced by government in previous times, such as the supports to employment program, but we know that the actual spending of those dollars and the release of those dollars has been delayed while case workers scramble to deal with increased case loads and do not have a vision yet for what opportunity planning and employment planning might look like. We have allocated dollars but no mechanism through which to spend them, no promising options that are being pursued. It is an example of a solution whose time has come and needs to be put on the ground, needs to be put in motion.

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Child care is another area where we know that the 30% of social assistance recipients who are single parents would benefit from some combination, some partnership in thinking about child care. Child care in the workplace will not be afforded by a fully funded provincial system. My colleagues with the Ontario Coalition for Better Child Care may not agree with me on that, but those who are trying to balance the books of the province know that we are going to need some creative partnerships in order to move forward on this.

I would ask the committee to consider what incentives there are for businesses of a medium or large nature, much less small businesses, to participate in the child care solution. Are there tax incentives? Are they sufficient? Clearly that is an area of recommendation that we would want you to extend your influence in.

Income tax thresholds is another area where there have been problems. As recently as two years ago, if you were dependent upon social assistance in the province and you began to move off of that system, your tax-back percentage was 80%. In fact, when you added in the costs of working, everything from transportation through to clothing, then we looked at a marginal tax raise that was actually punitive. For every dollar you earned, you were looking at losing something in the order of \$1.05 beyond



the first \$150 of retained income. Now that has been changed in the last year to a 66% tax-back ratio.

I would urge the committee to examine those numbers carefully and wonder whether or not each of us would be motivated to work for a 66% tax ratio. Some of us may be that but I suspect not many, and I wonder about the equity and the sense of having a 66% clawback by way of helping someone move transitionally from social assistance to independence.

We know that opportunity planning has been attempted at least two jurisdictions—I am on page 5 if you are keeping score. The regional municipality of Ottawa-Carleton has virtually unilaterally decided to take opportunity planning into its own hands and not wait for the province to take the lead in this area.

They are experimenting with the kind of idea which I suggested earlier in my presentation of reducing case loads for a certain number of the workers in income maintenance and actually asking, training, encouraging them to move to the employment planning, opportunity planning function so that they move out of the role of welfare police and income administrator and intake worker into someone who is actually helping someone address the individual barriers that are interfering with their life opportunity.

There is a sense to that we have found no argument with, but nor have we found adequate political or governmental support to take those kinds of risks. We think the time has never been better to test some of those entrepreneurial notions since we know that the other mechanisms are not working, certainly not sufficiently.

The province of Alberta has actually differentiated some of the functions within its income maintenance staff, and we think that this may be one of those times when Ontario does not have to lead the pack. It could actually examine another jurisdiction's activity and see if there are some opportunities to replicate that in this province.

We know that the Ministry of Community and Social Services should not be alone on this and we would recommend that third-party funding, transfer payment agency funding, dedicated funds related to opportunity planning, be considered. We think that separation of goals and third-party funding may provide you with some of the models that you need to do business differently and build some things back into the system.

We know that there are examples of programs, such as the Calmeadow Foundation, that have used the guaranteed loan program to stimulate small-business development among people who are dependent upon social assistance, people who would not normally qualify for a guaranteed loan in a bank because they have no equity. Their equity is their motivation, their interest in change, but not their property.

We think that the Calmeadow Foundation has had sufficient success that the province might consider a guaranteed loan fund for those high-risk applicants who in effect are borrowing against the province but without opportunity and may have innovative ideas that cannot be funded. We think that is another area that ought to be considered.

We know that there is also in British Columbia a healthy communities fund, which allows for the diversity

of different neighbourhoods. Toronto is not like Kapuskasing nor is it like Windsor or Sault Ste Marie. Yet each community may craft a different solution and require access to some seed grant which would allow the kind of local community economic development that would benefit many of the people who will otherwise end up on social assistance rolls.

Similarly, the province yesterday announced through the ministers of Health, Education and Community and Social Services the start of a program called Better Beginnings, Better Futures. This is an integrated model of healthy child development where the child is seen in the context of the family in the context of the community.

There are no dollars allocated at this time to expand that program with a community economic development aspect, yet since these nine communities are all economically disadvantaged communities, this would be an example of where it would be sensible to top up a promising model and maximize the effect.

Lastly, I would recommend to the committee that a project such as the Ontario SARC Network deserves the kind of seed dollars that would be required to continue to craft these partnerships. We have seen encouraging innovation come out of this kind of partnership. It has been done on volunteer sweat thus far. That is not to say that volunteer component will not continue, but we think that it makes sense for the province to take some risks, especially during the times where our prospects are dim, and begin to come at some solutions from a different and perhaps more entrepreneurial manner.

**Mr Curling:** That was an excellent presentation, well thought out, and it seems to me you are quite up to date with many of the concerns. Not only did you bring your concerns forward but also some solutions as to how we can go about this.

I just want to ask a question. I know you have answered in regard to housing, when those tenants in Metropolitan Toronto Housing Authority housing reach where they would no longer require subsidy that yes, they can gradually move out into the mainstream, but do you feel that a more aggressive approach would have to be used to get them out into that mainstream?

A lot of counselling has to be done because basically MTHA is like a nice safety net. It is a sort of comfort zone in case the salary goes down again. They will catch up because the waiting list is so long. We have seen three generations of people living in MTHA, so it is not doing the things that it should be doing, in other words, carrying them on to the mainstream. Do you think there should be a more forceful effort to get them out of MTHA into the mainstream?

**Mr Hayday:** We certainly think that the portability of a shelter subsidy has been a significant improvement in the social assistance system. Certainly it is a lot easier to make that portable than to make the housing stock portable.

I am not sure that the individuals I have worked with and I have met who are tenants in Metro Housing would choose to have that as a life address, but they are not aware that there will be sufficient transitional supports to enable a



relatively safe transition to the private market. I am not sure that we have addressed that aspect of the system.

**Mr Fletcher:** Just on the child care issue, and I agree with you that we do need more child care spaces, but is it tax dollars that we should be throwing at the situation or tax incentives? Is it not like a catch-22 in trying to raise funds and yet giving them away when we cannot raise funds? Should not corporations or industry be encouraged, rather than through taxes, to set up day care centres at the workplace? There should be another way than just throwing the money at it. Maybe it is the climate that we have to set up. I have a problem with throwing money at some of these problems.

**Mr Hayday:** I would not be recommending throwing money at something.

**Mr Fletcher:** I know.

**Mr Hayday:** I think that it would need to be carefully thought out. I am sure you would agree with that. I think that there needs to be some balancing between the net benefit, from all three parties concerned—the province, the employer and the employee. If we can negotiate a scenario where there is a win-win-win, then I think that is worth looking at so that the incentive is balanced by opportunity for those individuals who may most need it, as well as some kind of guarantee of a career track rather than a burger-flipper job.

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**Mr Fletcher:** I understand.

**Mrs Sullivan:** I was quite interested in your report and it took me back to the days of the Social Assistance Review Committee report release, when we had the anomaly of social activist groups and Conrad Black standing together on platforms being in support of the report.

Like you, I absolutely 100% heartily agree with your recommendation relating to the income tax threshold. As you know, the previous government over a period of time indeed did lower those thresholds and I would hope that the next government will continue that initiative substantially. I think it was an important one.

I was quite interested in two things in your report that I am going to put together—the Upstart program, along with the STEP program. We have had some substantial testimony from three or four groups relating to the barriers that still exist as people enter the STEP program and they talked about them very practically, not only the change in social assistance dollars that come to them but, additionally, lack of support for things like clothing for the job or safety clothing if that is necessary, or for suits and ties if that is necessary, depending on what is happening. They have talked about this very much as a part of the financial need that has to be taken into account in bringing those programs in place.

How have you dealt with that in the Upstart program? Have you talked about it at all? Is that something that is on your agenda?

**Mr Hayday:** The Upstart program as it starts will very specifically be functioning in the downtown To-

ronto core, so there is one kind of job and one kind of thinking-through of what is required to support individual in that kind of sector.

This province is so diverse that I think one of the things we trip over is that before we put a change in place, it has to meet the test of lowest common denominator in every region of the province. We do not seem to build in the kind of regional discretion and entrepreneurial aspect that recognizes the many cultures, geographies and labour markets in the province. It seems to me that is the area of the STEP program, to vest more discretion at the level of the actual client-worker relationship so that those kinds of barriers do not require province-wide change.

We do not need to have regulations on safety boots for working in a computer centre in downtown Toronto but if we wait until we have all of those regulations thought through, the opportunity may have passed. Whereas if we vested the discretionary authority at the level of the worker, we would be following a trend which is emerging in the labour and corporate sectors in terms of quality circles, flatline structures. There is something we could learn from that in terms of vesting discretionary authority and we have not done it.

**Mrs Sullivan:** Is the opportunity planner the place to do that? This is very much a follow-up, because that means there has to be more money to go into that area.

**Mr Hayday:** It is a place where you might win and you have not done it yet. You have not done it substantially yet.

**Mr B. Ward:** On page 6, the provincial healthy communities fund that BC has implemented, your recommendation is that we follow suit on a similar program. I am not familiar with this concept. You really do not put a price tag to your recommendation. Do you envision that if this province agrees that this is a good concept to head into, the initial allowance should be the \$750,000, or should it be more or less? Could you expand on this concept in greater detail than what is in the brief?

**Mr Hayday:** What underlies this fund is some research which is absolutely compelling now that says that our health status is more tied to our income than to the availability of health care and our life expectancy is equally tied to that. The Canadian Institute for Advanced Research has recently released a number of international comparisons which show that beyond dispute.

The healthy communities fund recognizes that and recognizes the need to invest in local community economic development and other alternatives. I would recommend that if the BC fund is seen as an initial pool to start from, then you adjust it on a per capita basis for Ontario rather than replicate the exact dollar figure. So assume that is the per capita figure and adjust for population.

**Mr Phillips:** I appreciate your very thoughtful comments. I guess over-arching this is kind of an assumption that the SARC report will proceed with the ne-



overnment. Then you have got a number of more specific recommendations, I think, and one recommendation in there, on the over-arching one, is to make a strong commitment to the long-term reform. That is; as I said, the major recommendation, I think.

Just in terms of some of your specifics that I think are quite good—I will try to get all my questions out because I now you do not allow supplementaries.

**Mr B. Ward:** Just say “and.”

**The Vice-Chair:** We have half an hour.

**Mr Phillips:** I have one question on the health one—and I agree with you, by the way. We have all sorts of evidence that says that the major determinant is more poverty and income than the quality of ultimate care. But I thought the health innovation fund was something that could be used for that.

“And” the second question is just, I gather the funding for your organization expires soon, and there is a recommendation here to fund, but it is not clear what sort of funds you are talking about. The committee might like to be made aware of that, because I think the Fair Tax Commission, no doubt, will look at your recommendation on the income tax thing, but that may take two or three years. Do you have any cost estimates on your recommendation to move the income level up before one is taxed?

That is my one question with three parts.

**Mr Hayday:** We do not have the resources to calculate the net revenue loss with a threshold adjustment and would recommend that that be something that be undertaken by ministry staff, who have adequate resources. That is part one of my answer.

Part two of my answer is that the Premier's Council on Health Strategy, now known as the Premier's Council on Health, Wellbeing and Social Justice, may well be a vehicle through which to fund some of these innovations, but expert reviewers are more likely to recommend that we try something which has worked than that we try something which shows promise. Since we do not have many markers to point to and say, “Well, this works and this works and this works,” we may have to take some risks with the fund, and it would be useful to have that will expressed by this committee, that some of these risks be taken with those seed dollars.

**Mr Phillips:** That is a fund that is available but that you think you may have difficulty accessing currently.

**Mr Hayday:** I think that we have not fully understood the link between social determinants and health status previously and that it would be important that we underline that point. That has been a problem previously. That is one of the reasons why we continue to run out of funding.

The Laidlaw Foundation has allocated over the last three years anywhere from \$125,000 to \$250,000 per year for a range of activities. It has decided, I think, that it wants some partners. It does not want to be the only organization that is looking at the long-term economic recovery in the province.

**The Vice-Chair:** Thank you, and thank you for appearing.

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## TORONTO HOME BUILDERS' ASSOCIATION

**The Vice-Chair:** Mr Keenan, would you introduce your colleague and the group that you represent, please.

**Mr Keenan:** Thank you, Mr Chairman, and good afternoon, ladies and gentlemen. As the Chairman mentioned, my name is David Keenan and I am president of the Toronto Home Builders' Association. To my left is Stephen Dupuis, who is vice-president of government relations of our association. I wish to express our thanks for your inviting us here today.

The opportunity to present our recommendations with respect to the upcoming provincial budget is one that we spent quite a bit of time to investigate and analyse and determine a course of action. Over the next half-hour we would like to accomplish basically three objectives: first, to detail the economic impact of the residential construction industry; second, to describe the current oppressed state of the industry, and third, to put forward the Toronto Home Builders' Association's recommendations with respect to the upcoming provincial budget. At the conclusion of our presentation we would be pleased to take any questions which you might have.

First, I would like to deal now with the economic impact. The residential construction industry is the largest industry in Canada. In 1989, spending on new residential construction totalled over \$24 billion. Renovation spending totalled almost \$19 billion. The \$43 billion spent on housing generated over 400,000 person-years of construction employment. For every one of those 400,000 construction jobs created by home building and renovation, more than two spinoff jobs were created in the manufacturing, trade and service sectors.

Focusing on the greater Toronto area for a moment, spending on new residential construction alone totalled \$5 billion in 1989 and provided some 40,000 construction jobs. When indirect employment is taken into account and the renovation sector is added in, the residential construction sector emerges as the dominant source of employment and growth in the greater Toronto area.

The state of the industry: The residential construction industry in the greater Toronto area has been in a state of recession since the spring of 1989. We have prepared for you a special report on the state of the industry and I would like to highlight for you some of our findings. In 1990 sales by Toronto Home Builders' Association members were the worst on record. Sales totalled approximately 8,000 units, down from approximately 18,000 units that took place in 1989 and 36,000 units that took place in 1988. In 1982, as a benchmark or a reference point, and that is the low point of the last recession, just over 12,000 new homes were sold. Interestingly enough, our record in this downturn is below what we saw in 1982.

Sales-in-hand figures indicate that the first half of 1991 will be a write-off. A survey of 15 builders reported 757 sales in hand for the start of 1991, compared to 4,698 in 1990, an 84% decrease. It is an indication of where the industry is going in the current year.



For every 100 construction workers on the job in June 1989 there were 43 on the job in June 1990, a year after, and 29 on the job in November 1990. Based on sales-in-hand data and estimates from the trade, it is expected that only 15 of those 100 workers will be on the job by March 1991, just two months away. A survey of 17 municipalities in the greater Toronto area shows that the value of residential building permits issued in 1990 dropped by over \$2 billion, or 46%, compared to the activity in 1989.

The largest industry in Ontario is currently firing on one, maybe two, cylinders. Many manufacturers and trades are trying to come to grips with the unbelievable devastation in the industry. Example: A gentleman by the name of Primo Fantin, a Mississauga carpentry contractor is perhaps a typical reaction that we see. In an interview in the *Toronto Star* last Saturday he told of how his company has dwindled from 80 people before the recession down to four today.

"I had to lay off 20 men," according to Mr Fantin, "before Christmas, many of them employed with us for 20 years. That was the worst part. It was just terrible."

Apart from the human costs of the widespread unemployment, all levels of government are feeling the effects of the downturn.

The municipalities are feeling the pinch as they wrestle with the difficult choice between increasing taxes or cutting services to compensate for the loss of revenue from levies and building permit fees.

The province is feeling the effect as its deficit continues to grow, largely as a result of overly optimistic projections of housing starts. In the spring provincial budget, the former Treasurer brought in a balanced budget based on 80,000 housing starts. Actual housing starts, however, came in at below 63,000 units.

The federal government is also experiencing revenue shortfalls, coupled with increased unemployment insurance costs as the industry's payroll is being transferred to Ottawa. The province and municipalities will soon begin to feel the secondary impact of these workers as they exhaust their unemployment insurance benefits and begin to draw social assistance.

Our greatest concern, however, is a serious loss of industry capacity which is currently taking place. Manufacturing capacity is shrinking rapidly and we are losing skilled workers to other industries and other provinces. When demand recovers, this capacity will be extremely difficult to regain and will inevitably lead to a serious escalation in prices, similar to that following the 1981-82 recession.

The current level of sales is well below the number of units required to accommodate future growth in the Toronto area. Our market analysis projects an average annual demand of some 22,000 new housing units in the Toronto census metropolitan area in the 1991 to 1996 period, almost three times the current level of sales. We believe these projections to be conservative, based on the fact that they were generated prior to Minister of Employment and Immigration Barbara McDougall's announcement of substantial increases in immigration levels.

Our recommendations: We must face up to the fact that we have a crisis situation on our hands. I believe that we can no longer sit back and wait for the situation to pass. The time has come to take proactive measures and leadership measures to ensure economic recovery. The association's recommendations with respect to the 1991 provincial budget are designed with one objective in mind—to restore the self-esteem of the thousands of unemployed construction workers by getting them back on the job.

In order to kickstart the residential construction industry, we believe that the upcoming provincial budget should focus on the creation of jobs through a massive commitment to infrastructure, increased non-profit housing allocations and the adoption of the Toronto Home Builders Association's Let's Build Ontario program for first-time home buyers.

I want to address infrastructure funding, if I may. The recent speech from the throne included a \$700-million commitment to infrastructure funding. We believe that this is an important step in the right direction. However, in view of the seriousness of the current situation, we recommend that the upcoming provincial budget double this commitment as a minimum.

Investment in infrastructure should not be looked upon solely as a short-term solution to the current high levels of unemployment but as a means of addressing the substantial infrastructure deficit which currently exists, as well as the inevitable demand for new infrastructure that is necessitated by growth.

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The long-term impact of ignoring the infrastructure problem will be a continuation of the boom-bust housing cycle. One of the primary causes of the high land costs in the greater Toronto area has been the lack of serviced land. The Greater Toronto Area Urban Structure Concepts study has found that the capital costs of supporting growth in the GTA over the next 30 years will be approximately \$7 billion. This represents a 42% increase in average annual expenditures over the recent levels that were established.

There is also obviously a strong link between a well-maintained infrastructure and the environment. The Ontario Sewer and Watermain Contractors Association has warned that Ontario's water and sewer systems are facing a crisis which could cause long-term environmental damage. The association has found that Ontario's water and sewer systems are approaching an advanced age, with some components actually older than Confederation. They have estimated the replacement value of the current water and sewer systems at \$50 billion and recommended that an additional \$300 million should be spent annually to maintain an adequate system.

Investing in infrastructure is a win-win situation. From the provincial perspective, the government will benefit from increased revenues, from income and sales taxes as well as decreased social assistance costs. Investing in infrastructure will also ensure orderly growth and stronger environmental protection. The building of infrastructure at this time will also be extremely cost-effective as a result of the intensive competition for contracts.



From an industry perspective, an investment in infrastructure will generate much needed employment and go a long way towards evening out the boom-and-slump housing cycle which is so disruptive to our workers and to our businesses.

Non-profit housing: the Toronto Home Builders' Association recognizes the importance of non-profit housing in the continuum of housing supply. We wholeheartedly support Minister of Housing David Cooke's decision to extend the Homes Now deadline. This change will keep alive any projects which could come on stream fairly quickly while approvals are being gathered.

The association also supports increases in non-profit housing allocations at this time. The construction of non-profit housing will generate sufficient employment in the manufacturing sector and among the construction trades. It also makes a great deal of sense to build non-profit housing during the countercycle to the market, when it is possible to supply as much as 25% more units for the same money because of the competitive nature of the contracts.

While we are supportive of increasing non-profit housing allocations, we are concerned with the levels of allocations which are currently being proposed, that is, the 0,000-unit figure. We believe there must be a much healthier balance between the non-profit sector and market sector.

As an industry, our goal is to capture as large a share of the affordable housing market as possible. If we can address this market as an industry, substantial government resources will be freed up to pursue other important goals in its agenda.

In order to achieve this goal, we must work with our members to ensure that they target to the 30th income percentile, not the 60th—that is, of the income strata. However, we will also need the co-operation of the province and municipalities in terms of infrastructure funding, streamlining the development approvals process, reviewing developments standards and, most important, challenging the "not in my backyard" syndrome out there, particularly in the current year with the upcoming municipal elections. I am getting sick and tired of it: Every time I try to bring a project forward, they say, "We can't do it, because we're going to face an election in the next six to eight months."

Let's Build Ontario: We would also like to put before you today a program which would stimulate employment in the construction industry through the provision of affordable housing for first-time buyers. We have called the program Let's Build Ontario. It would involve co-operation between government, the industry, mortgage insurers and mortgage lenders. The way in which Let's Build Ontario would work is as follows:

First-time home buyers would be able to purchase new homes with a 5% down payment. The province, through the Ontario Mortgage Corp, would provide 5% or more second mortgages at no or low interest rates. CMHC or the Mortgage Insurance Co of Canada would provide mortgage insurance. The financial community would provide 90% first mortgage financing. We, the builders, would provide job-loss insurance to the purchasers.

Programs like that were initiated back in the late 1940s and the 1950s, and I am sure many of the parents of us here today were able to get their first house through programs that were initiated at that time.

We believe there are many consumers out there who would love to take advantage of the many new-home values which builders are offering. Unfortunately, the tremendous lack of consumer confidence which has resulted from the recession, fear of job loss, the goods and services tax, the Gulf war, etc, has paralysed the consumer's will to purchase.

By joining us in the Let's Build Ontario program the province would send a strong signal to the public that it has confidence in this economy, in the province of Ontario. By supporting Let's Build Ontario, the province would also be acknowledging the strategic importance of the residential construction industry and would raise the spirits of thousands of unemployed construction workers.

The province of Quebec recently recognized the importance of a healthy housing industry by allocating \$170 million over four years to encourage first-time buyers to buy new homes. Quebecers who buy new homes until 30 September this year will have a choice of a guaranteed mortgage rate of 8.5% for three years or a subsidy equivalent to 4.5% of the purchase price to a maximum of \$5,000.

Interestingly enough, the President of the United States, in his state of the union address last night, also mentioned housing and the importance of providing housing for first-time buyers to stimulate the economy south of the border.

The provincial role in this program would be to make available a pool of mortgage funds which will be recovered as the mortgages are paid off or as the units are sold. The small per-unit investment by the government will be returned several times over in jobs and revenue. By bringing forward some of the pent-up demand for new housing, this program will also militate against the rapid price increases which followed the last recession. Across Ontario, we believe that up to 10,000 units could be sold through this program.

We have been careful not to suggest expensive tax deductions or direct grants to home purchasers, as we do not wish to exacerbate the government's current fiscal position. We are also recommending that this program be limited in duration. In light of the massive unemployment and the loss of industry capacity, however, we believe that the Let's Build Ontario program is necessary at this time.

In conclusion, our message to you can be summed up in three words: jobs, jobs and jobs. In the upcoming provincial budget, we urge you to take job creation to the top of the provincial priority list, particularly through increases in infrastructure funding, more non-profit co-op housing allocations, and by joining with us in the Let's Build Ontario program.

On behalf of the members of the Toronto Home Builders' Association, I would like to thank you, the members of this committee, for your attention. I would be pleased to answer any questions if you do have any.



**Mr Fletcher:** Your comments are well appreciated, especially about the municipal governments right now. I agree with a lot of what you are saying, but you do know the economic climate right now: There is not a heck of a lot of money to throw around. I do not mean throw around literally; I mean to pump into the system. We have pumped \$700 million in. To double it—we do not have the money and we cannot just keep throwing money at some of the situations. You do realize that I do sympathize with you.

Here is my question. This morning I thought I had heard about a bit of a recovery in the real estate market. I know you are not in real estate, but I think I did hear this morning on the news that there is a bit of movement now in the real estate market. Did you hear that?

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**Mr Keenan:** I am not aware of a particular press release or article on that. But in a meeting I had today at noon with our sales and marketing council, the report I got back is that there are a lot of people coming to the sales offices. They are kicking tires, to use the analogy, but they are not committing to a purchase contract, not because of the war but particularly because of the uncertainty about their jobs in the future.

**Mr Phillips:** I am trying to get one question in. When the Ontario home builders were here—Steve, were you not with them?

**Mr Dupuis:** Hi.

**Mr Phillips:** I can remember their brief, given the committee's recommendation in terms of the debt and deficit, being quite worried about that. But your recommendation calls for doubling the \$700 million to \$1.4 billion, and another \$300 million for sewers and water mains, and another unspecified commitment on mortgages. It is one of the challenges the private sector has always had, that when the going gets tough priorities change a little.

I have really two questions: One is that I think your advice to us is that this is not the time to worry about the deficit and that we should be looking at these numbers. Second, I am always curious about how that 25% reduction in cost for non-profit construction takes place. Is that because people are prepared to build at a loss, or is it that all the profit goes out of it? How can it drop that much in that short a time?

**Mr Keenan:** I see two parts to the question. Let me refer first to the last part, that is, the 25% reduction.

I can refer you to a business school. Whether it is the University of Western Ontario, the University of Toronto, any of the business schools will tell you that the essential to survival in a recession is cash flow; not profits but cash flow. So a contractor today would scramble to the best of his ability to link up a contract in order for that contract to generate cash flow so he can make his debt commitments. If it means no margin or a minimum of margin or taking a loss, he is prepared to do it in order to get him through the business.

The second part: In the last two weeks I have been approached by two contractors who have been in business for over 20 years. They sat down in my office with tears in their eyes in concern that they were going to lose their

businesses. They have gone from labour forces of 15 down to just the family that is running the business and saying, "How can we survive?" What they are looking for is any type of business at all that a framing contractor or forming contractor can get his hands on in order to give him some cash flow to make that commitment at the end of the month. In the meantime, he has mortgaged his house to the hilt to free up some cash in order to make these commitments. That is how serious it is.

**Mrs Sullivan:** I am very interested in your recommendation relating to infrastructure and the figure you use of \$300 million. I think in this year's budget there is about \$250 million already committed for sewer and water construction, and in this budget there was a proposal for water and sewage corporation, which would lever up a lot more money. I think it would be beneficial and the Treasurer might want to take note of that.

I wanted to specifically talk to you about your proposal for Let's Build Ontario. You are talking about 10,000 units. Would you have a limit on the market price of units that would be eligible for participation in the program?

**Mr Keenan:** Yes, we are working within the affordable housing guidelines as set by the previous government of \$160,000.

**Mrs Sullivan:** When you are looking at that, one of the things that occurs to me is what happened in Burlington, my community, where, for instance, a builder was able to build affordable units at really the high part of the market, and when the municipality refused to allow the next development at that same price range to come on stream, all of a sudden those units became non-affordable again. What kind of protection can you see being built into a program like this? That is one part of the question. The other part is: What do you think the commitment has to be? Are you talking about, through the Ontario Mortgage Corp, a commitment comparable to that in Quebec of \$170 million or \$170 million? What dollar figure do you see the Treasurer putting into the budget?

**Mr Keenan:** We talk about 10,000 units as a target figure. Whether we have sufficient lands serviced and ready to go—we are not quite sure whether in fact that target can be reached. Consequently, the provincial commitment of funds would have to be determined on our assessment of how many units we can actually bring to the marketplace in the next three months.

In the mortgage business, it is perhaps setting aside \$175 million, but it is not money that is spent, it is money that is invested with a return potential. That is what I want to emphasize here. It is how you look at it. It is not money being given away, it is money being invested in families invested in housing.

**The Vice-Chair:** Mr Curling.

**Mrs Sullivan:** Excuse me, but I want to go on. You are talking about investing in the next three months. The budget will not be out until May.

**The Vice-Chair:** It is just that we are short of time and we have quite a few on the list. It is half an hour unless this committee wants to authorize me for one hour for each of the rest. I have no problem.



**Mr Curling:** Because of the time, I will go straight to your question. I think this presentation is a very good one and I commend you for it. The problem I have with this, though, is that you emphasize new homes. I would have liked to see the home builders' association coming in more to talk about things like rezoning, basement apartments being fixed up, because the industry there was quite vibrant. You had good sales in 1988 of new homes, and many people who bought starter homes could have easily put basement apartments in, so I know we run into the rezoning aspect of it.

Home repairs is a big industry. I think they need that kind of support, because the industry itself is not only limited to new homes. Sometimes when I see the housing industry, it reminds me of the car industry, which tells you that you must change your car after two years or three years or it is obsolete. New home buyers and what have you, starter homes, all those types of things throw it in a situation where it is a disposable kind of society itself; no expansion and all that. Was there a deliberate process on your part not to mention more about that part of the industry, about basement apartment improvements and home repairs?

**Mr Keenan:** It is a very good question. I would like to point out two parts to it. First, the renovators' council of the Toronto Home Builders' Association is a very active committee, focusing essentially on existing stock. They are growing in numbers, and also with respect to a code of ethics under which they will work in order to provide consumer protection. They are part of these numbers. In other words, they are part of the economic impact.

Similarly, it is a question of jobs. More jobs are created and retained in the new home sector than in the rehabilitation or the renovation sector. That is why the focus has really been, as I mentioned earlier, on jobs. It is the new home sector that generates the majority of the jobs.

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**Mr Sutherland:** I thought there were a couple of interesting points you made in here. We have had the banks in and we have had other forecasting groups in predicting that we're going to recover in the third quarter of this year. I was quite interested in the note you made about the loss of manufacturing jobs, the loss of skilled people. It seemed to me there was some sense that you felt that you were expressing that there was not as strong an ability to recover this time around because we have lost a lot of those manufacturing jobs and a lot of those people out of the province. One, am I correct in what I am gathering out of that, and two, if that is the case, do you see us recovering in the third quarter of this year, in general and specifically in your industry?

**Mr Keenan:** I think the committee is asking a lot of very good questions. Answering this one, obviously there are two parts. The first one is, is there a recovery down the road? Definitely there is; with interest rates coming down there is. We could see a recovery. The housing sector, however, is somewhat paralysed as we go into this year. That is on the supply side; not the demand side, the supply side.

It goes back to one of my earlier comments. With the LIMBY syndrome out there, it affects the supply of lands whereby you can build smaller, affordable product. So answering your question, we would have difficulty getting

enough supply out there to have the real impact of this economic recovery take place. As the report submitted to you suggested, we have to also, at the provincial level, look at streamlining the development process in dealing with that very issue on the supply side. I emphasize that point because it is the exact same problem that occurred in 1983-84 as we came out of the last recession. There just were not sufficient lands available to deal with the demand side through the supply side of the equation.

**The Acting Chair (Mr B. Ward):** Serviced land.

**Mr Keenan:** Serviced land.

**Mr Jamison:** My question to you again deals with the recovery, but in a different light, that if we do in fact come into a recovery of sorts in the second half of the year—the housing market in Toronto, I do not have to tell you, has been overheated at times. Then it cools down. Right now it looks pretty dreadful as far as your ability to participate is concerned.

We talked about getting involved in co-op housing and those types of programs to help supplement your industry. My question is whether or not, if in fact a significant rebound takes place, the allocation of co-op housing would take place on an ongoing—you would not just receive 20,000 starts right off the bat. Obviously the question in my mind is that it is more profitable for you as a builder, or it would seem to me to be more profitable for you as a builder, to build other types of housing, and how that would possibly interfere at that point with a commitment on the part of yourselves to co-op housing. Would we be assured that you would not put that on the back burner at that point?

**Mr Keenan:** The industry does not want to have the swings that took place in the 1980s. The topic of everybody's conversation in the housing industry in 1987 and 1988 centred on delayed closings and houses that were not completed on time with the features in them. That is not what this industry wants. We want a more level playing field. We want to see the dramatic swings up and down removed from this industry. Also, what will happen is we will get rid of the speculators. We will get rid of those profit-takers who are out there. I think that is what you are really asking, how we can get rid of that. What we are suggesting is that if we can get this industry back on an even keel, then we will not have to deal with those more questionable practices.

**The Acting Chair:** I would like to thank you for the presentation. It was very worth while and we will take it under consideration as we continue our deliberations.

#### ONTARIO COUNCIL OF AGENCIES SERVING IMMIGRANTS

**The Acting Chair:** Next is the Ontario Coalition of Agencies Serving Immigrants; Howard Sinclair-Jones, executive director. I believe you have a couple of people with you.

**The Vice-Chair:** Would you care to introduce your colleagues and the group you represent?

**Mr Sinclair-Jones:** My name is Howard Sinclair-Jones. I am the executive director of OCASI. The correct name is Ontario Council of Agencies Serving Immigrants. I have with me Paulina Maciulis who is the



program co-ordinator for OCASI, and Aruna Ogale who is executive director of ACCES for New Canadians. Could I ask how much time we have?

**The Vice-Chair:** You have about half an hour, until a quarter to four.

**Mr Sinclair-Jones:** I know you are running a bit behind. Perhaps we could talk for about 15 minutes and then we would be very happy to answer questions. We have tabled a brief, this thing, which I think has been distributed. It includes six major areas of concern: access to services for immigrants and refugees in Ontario, settlement and integration programs, community and social services, social assistance, immigrants and the labour market, and finally, employment equity. We will deal with these in turn. I will be dealing with the first two issues and then I will pass to my colleagues to deal with the others.

First of all, though, by way of introduction to OCASI itself, some of you are very familiar with OCASI. I know Mr Phillips. We have met before in his previous capacity. Others would not be so familiar. There is a very large network of community-based agencies all over Ontario which provide assistance to newcomers, to refugees and to immigrants. We have 116 member agencies and they go everywhere from Kenora to Kingston, Ottawa, Windsor, a very large number here in Metro Toronto; more than 70 of our agencies are in the greater Toronto area. It is a very extensive network and it provides a very broad range of essential settlement services and social services to newcomers.

Each year our agencies provide assistance to more than 400,000 immigrants in Ontario, immigrant clients, people who were not born in Canada. The services include language and orientation classes, individual family counselling, interpretation, translation, information and referral, legal assistance, employment counselling and job training, and health care services.

Basically, these agencies play an essential and fundamental role in the delivery of social services in Ontario and in addition they play important roles in advocating for their constituency, for the immigrant communities of Ontario and in making links between newcomers and Canadian institutions.

Another important thing to stress is that the services OCASI members provide go far beyond the initial reception and settlement services. They include a wide range of innovative programs, employment preparation, preventive programs in the mental health field, family counselling, programs for seniors and especially a wide range of programs aimed at a particularly disadvantaged group, immigrant women.

One thing we would like to stress is that the community-based immigrant service agencies are extremely cost-effective. They are innovative and because of their flexibility they can be immediately responsive to the changing needs and changing demographics of the province. They have developed a wide range of skills in these areas. This has occurred as a result of much dedication, assisted by a tremendous voluntary commitment, despite the fact that the funding they have received over the years

has been truly inadequate. In short, our member agencies are the essential link in helping the many thousands of newcomers participate in the economic and social life of Ontario.

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In terms of the concern of access to services, immigration to Ontario has been a fundamental aspect of the province's economic growth and development and for many years our member agencies have raised the issue of lack of access to appropriate services for immigrants and for minority communities. Some of our key access concerns include systemic racism and discrimination in Ontario public institutions and through the economic structure; the incredible waste of expertise and talent and qualifications of immigrants and refugees due to discriminatory practices on the part of professional associations, educational institutions and other regulatory bodies; the lack of a comprehensive language training strategy at either the provincial or federal level. I should add that this is particularly a problem here in the province of Ontario. The language training system in this province is extremely complex and some would say chaotic in terms of who is responsible for what and this creates tremendous difficulties.

There is the inaccessibility of hospital services, family services, the community college system and other public institutions to non-English-speaking Ontarians, and also the lack of immigrant and minority representation on the staff and boards of public institutions.

OCASI over the past several years has supported the development of Ontario's multicultural strategy. However, we strongly feel that meaningful implementation of the multicultural strategy has been sadly lacking and the existing problems stand in stark contrast to some excellent statements of principle.

In this regard we would like to make the following recommendation, that the provincial multicultural strategy be reviewed to ensure that implementation strategies include defined and measurable objectives, the development of appropriate new programs with the allocation of realistic budgets, and we recognize that this probably requires the reallocation of existing funds rather than the creation of new money. We are fully aware of the difficult economic situation the province is in. We wish to see a re-examination of existing resources to ensure that grants and contributions are fairly and equitably distributed within the field of immigrant services. We wish to see clear lines of authority and responsibility for implementation of the multicultural strategy, and we believe that this implementation strategy must include mechanisms for community accountability.

That is in terms of the question of access.

In terms of the second one, settlement and integration of newcomers, we believe that a strong system of community-based settlement services and language training programs is essential. Increased immigration to Ontario together with a long history of underfunding of our agencies, requires an urgent and major increase in resources for immigrant settlement and integration.

According to the Ministry of Citizenship, Ontario is the initial place of settlement for 52% of immigrants



nada and it has been estimated that roughly 75% of all migrants end up living in Ontario within six to nine months of arriving in the country, so we are talking about something like three quarters of all immigration flow to Canada eventually residing in Ontario. Although the Ministry of Citizenship is the major provincial government source of funds for our member agencies, it remains a very small department with a budget which is far from adequate considering its vital mandate in the areas of race relations, human rights, multiculturalism and immigrant settlement.

OCASI supports a strong role for the Ministry of Citizenship as an advocate within government to the general public for immigrant access and participation, but we are concerned that its continued existence should not be used to legitimize the marginalization of immigrant service agencies by other provincial ministries which have very much larger budgets.

Meanwhile, the federal government's support for immigrant settlement services and language training is insufficient and fails to recognize that this province is the major destination for newcomers to Canada. Ontario receives only 25% of federal funding for language training programs and just 45% of funding for newcomer settlement, despite, as I said, something like 75% of newcomers eventually residing in the province.

Our recommendations in this area, settlement and integration, are as follows: that a major increase in funding be provided to the Ministry of Citizenship's Ontario settlement and integration program to sustain and enhance operational support for community-based agencies which provide settlement and integration services to newcomers, and further, that legislation be enacted to provide the status of a mandated program to the Ontario settlement and integration program; second, that the Ontario government actively pursue a federal-provincial agreement on immigration as a means to ensure that an adequate range of settlement services and language training is provided to newcomers to the province.

In this respect—I should just add this—we are particularly concerned following the announcement of the federal-Quebec agreement on immigration of a few weeks ago. That followed an announcement by the federal Minister of Employment and Immigration of a major increase in levels and an allocation of new funding for the settlement and integration of newcomers. It would appear that the subsequent announcement of the Quebec agreement has involved a tremendous amount, virtually all of that new money, towards the province of Quebec, so we are going to be expecting a substantial increase in immigration numbers with no increase from the federal level for services.

I will pass to Paulina now.

**Ms Maciulis:** I am going to address two issues, both of them under community and social services, so it will be community and social services and social assistance reform.

The member agencies of OCASI exist partly because the so-called mainstream community and social services system in Ontario does not meet the needs of immigrants and refugees in the province. New immigrants and many times people who have arrived here many years ago use

the services of community-based immigrant service agencies because OCASI agencies have specific knowledge and expertise and are culturally sensitive and equipped with appropriate language capabilities. The essential role of OCASI member agencies in the provision of community and social services requires the recognition and support of the Ministry of Community and Social Services. Existing funds must be reallocated and redirected in an equitable manner.

Recommendations on this issue are that the Ministry of Community and Social Services in its policy development, program design and funding allocations recognize the crucial role played by community-based immigrant service agencies, and that the Ministry of Community and Social Services develop a program of operational support for community-based immigrant service agencies appropriate to the mandate of this ministry to provide funding for services such as needs assessment; community development; access facilitation such as escorting, interpreting and translation services, and information and referral; crisis intervention; counselling for non-English-speaking individuals and families; general orientation and information related to social assistance; social support programs for non-English-speaking seniors; social support programs for isolated and vulnerable adults; special programs for disabled people within the immigrant communities, and pre-employment programs for immigrant and refugee social assistance recipients.

In the area of social assistance reform, OCASI worked closely with the Social Assistance Review Committee to establish a Multicultural Advisory Group on Social Assistance which brought together representatives of 15 organizations which serve immigrants. The multicultural advisory group reviewed the presentations and briefs which raised issues concerning immigrants and poverty. There were over 100 submissions on that issue.

Based on comments made over and over again by agencies and individuals across the province, a clear consensus emerged from the many presentations and briefs: that the social assistance system is not meeting basic needs for food, shelter, health care, clothing and transportation; that the social assistance system lacks sensitivity and compassion and that discrimination is pervasive and systemic; that the social assistance system lacks consistency between and even within municipalities—communication between the benefit system and recipients and community organizations is ineffective and in some cases non-existent; that the failure of the system is exacerbated for specific groups which face discrimination on the basis of their immigration status, such as sponsored immigrants.

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OCASI supports the vision and thrust of the Transitions report. The SARC report links together in a positive way the challenge of combating poverty with that of building a multicultural Ontario. Transitions contains a progressive vision for Ontario. Its recommendations for major reform of social assistance and important new measures to assist the working poor are of an urgent priority.

Implementation of the Transitions report will help the clients of OCASI member agencies and all low-income



residents of the province. We welcomed the release in 1988 of the Transitions report. We are, however, disheartened by the slow progress in implementation of its recommendations. Virtually no action has been taken with reference to SARC's excellent recommendations for improving access and quality of services to immigrants. OCASI emphasizes in particular the problems faced by family-sponsored immigrants in need of assistance who continue to be denied eligibility.

All Ontarians need adequate resources to deal with day-to-day living costs and emergencies. People need support in order to move towards self-reliance. Immigrant women need access to child care, to English classes, to vocational counselling and to skills training opportunities.

A recommendation on that point is that the Ministry of Community and Social Services actively and expeditiously move forward with the implementation of the Transitions report of the Social Assistance Review Committee. I turn now to my colleague.

**Ms Ogale:** The organization I work for is ACCES for New Canadians, which stands for Accessible Community Counselling and Employment Services for New Canadians.

I am going to digress a little bit from the brief that you have, but basically it will just touch on everything. We have just completed a survey that OCASI conducted for 1989 and what we found was that the member agencies—there were 107 member agencies at that time—served 420,000 people. That is a 50% increase from the previous year, which was 1988. The survey also indicated that for the people coming to our agency, their biggest areas of concerns were ESL, or English-as-a-second-language training, and employment assistance. The people we are serving desperately need assistance in making sure that they can find jobs, and the only way to find jobs is making sure they have some type of skills training and English as a second language.

It is no secret that the effects of free trade and the recession have been hard on a lot of Canadians. I think, just because of the nature of the way our economy works, it is even harder on visible minorities and those who are new to Canada because of the excess baggage they carry, mainly that they do not speak the language, that their degrees may not be recognized and whatever. This is having a disastrous effect on thousands of immigrant workers and their families, and especially on immigrant women who are even being further jeopardized. A lot of them were in a marginalized industry as it was, and now these industries are closing down. So something has to be done in terms of retraining these women to get them into other types of sectors.

We are also seeing more and more problems with the older immigrant worker. As the gentlemen who gave their presentation before were saying, a lot of immigrant workers, especially in the agency I work for, are Portuguese. They worked in the construction industry. They always thought they would have a job. They worked for 15, 20 years. They never really felt they had the need to learn the English language. Suddenly they are out of work for the first time. This whole issue has to be addressed in terms of

developing their English-language skills, developing some sort of other skills training, because they need to get back into the workforce. Given their age and given their situation, it is likely that they might not be going back into the construction industry.

Many immigrants, especially immigrant women, require additional support in terms of career counselling, language, employment, skills training and job placement programs in order to compete effectively in the marketplace. We have to make sure that we provide for this.

I know recently the Ministry of Labour announced that \$25 million extra would be put forward. We would like to ensure that this money is going towards all sectors including the immigrant working population, which means that basic skills development is important, literacy is important; but when you are dealing with immigrants and refugees you are also talking about ESL. You are also talking a lot of times about first-language literacy. We hope that with this \$25 million the needs of this group are also going to be looked at.

As Howard said earlier, we know there is not a lot of money and we know what our economy is facing right now, but we really feel that perhaps there should be some relocation towards the community sector because we are a very, very cost-effective and we provide services that are very necessary and that perhaps have not always been provided.

We do have some recommendations:

"That a long-term perspective on language, literacy and skills training and the development of community resources for skills development and labour adjustments be supported;

"That expanded provincial funding is needed to promote community-based language and skills training for immigrant women;

"That the ministries of Education, Skills Development and Labour ensure that their market adjustment and skills development programs respond to the specific needs of immigrants and refugees in Ontario;

"That the Ministry of Labour, in implementing the recent announcement of additional funding for labour adjustment in response to plant closures, develop components which are specifically targeted to workers with specific needs such as non-English/non-French-speaking workers

"That the Ministry of Labour increase the number of agencies funded as help centres which have a capability of providing services to immigrants and refugees"—I might add right now that in Toronto there are only two help centres that cater to the immigrant and refugee populations; and

"That, as the province renegotiates the Canada/Ontario agreement on training, efforts be made to explicitly advance the province's multicultural strategy; and further that the agreement recognize and enhance the role of non-profit community-based organizations in the face of continuing privatization."

I would also like to address the issue of employment equity. Underemployment and unemployment are major problems affecting immigrant communities in Ontario. A recent report that was conducted by the Canadian Ci



erties Association reinforces what OCASI has always known, that systemic racism is indeed an enduring feature of our economy. The association studied 12 out of 15 private employment agencies in Toronto, Ottawa, London and Kitchener-Guelph. In all of these areas, the agencies agreed to comply with an employer's request to refer only white people for jobs.

Mandatory employment equity legislation is necessary to address the barriers of racial discrimination in hiring and job promotions. In addition, specific measures are required to ensure that foreign-trained professionals and people have equitable access to employment opportunities in the province.

OCASI supports Bill 172, a private member's bill introduced in the last session of the Legislature. The bill would provide for employment equity for women, people with disabilities, native people and members of visible minorities. As Premier Rae has stated, "The bill is a result of extensive consultation with affected groups and would go a long way towards making Ontario's workforce reflective of the human wealth of the province."

The Task Force on Access to Professions and Trades provides a framework for ensuring that Ontario's economy receives the full benefit of the wealth of skills and talents possessed by immigrants to the province. The task force recommendations detail effective measures to counteract discriminatory rules and practices.

We would recommend, under employment equity:

"That the mandatory employment equity legislation be adopted to promote equitable employment opportunities for women, visible minorities, people with disabilities and original peoples; and that implementation of the legislation be accompanied by cross-cultural sensitivity training in the workplaces of the province;

"That, without further delay, legislation be enacted to implement the recommendations of the Task Force on Access to Trades and Professions; and

"That employment agencies which contravene the Human Rights Code be forced to terminate their business activities in the province."

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**Mr Phillips:** Thank you for what I think was a very thoughtful brief. In my experience on the other side, probably the best investment the province makes in its spending program is in these services. I am not sure I have seen anything the government spends its money on, but I always felt, for the reasons you outlined, that dollar for dollar this was our best investment because you are very efficient, effective and you get an awful lot of volunteer help as well that I think really provides value. So I think that you certainly have my support, and as I say, to the extent that I can influence the other members, I can assure them that the members of OCASI really do provide excellent value.

I think you have raised a lot of other very important issues that are somewhat non-budgetary. They are important issues that the government will wrestle with and I can assure you that I will be watching it, because things like access to trades and professions are very fundamental; the

employment equity is very fundamental—I will forget some that I will not mention—and I think your advice on the Ministry of Citizenship is an extremely important one that I agree with. That is, it is an advocacy ministry; it should not be allowed to marginalize individuals. I think the government and the province must reflect the diversity and not think of it as isolated in any one ministry. I happen to think we were making some good progress on that as a former government.

I guess I did not even want to ask a question other than just to say that I can vouch for these organizations and the work they do, to say this, that the issues you raise in here are absolutely fundamental to the province and the future of the province and will be the subject, I think, of some really good debates in the months and years ahead. So as I say, I thank you for an awful lot of work that went into that and I hope that at least over the short term the government can provide adequate funding. It probably will never be quite as much as you would like, but I hope it is enough to do the job.

**Mr Sinclair-Jones:** May I just comment? I thank you for your comments; that is very complimentary coming from an ex-Minister of Citizenship. We had our battles before with Mr Phillips.

I would add, though, that I personally do believe that all of these issues are in fact fundamental budgetary issues. They do not appear immediately in the equations, but the economic benefits of immigration are phenomenal. I feel that there is a major imbalance between the potential contribution of immigration to the economy of this province and the contribution which the government makes directly in the initial assistance to newcomers to the province and the continuing ability it gives them to participate fully in the life of the province.

I mentioned earlier that we are not really requesting new funds, but we are asking for a serious examination of the existing allocations in the field of social services. Why should the Ministry of Citizenship have a budget of only \$60 million, when one has other ministries with budgets of \$4 billion that are not delivering in terms of social services to a multicultural population? We should be looking at that. So I would say there are serious budgetary implications to some of the—

**Mr Phillips:** I guess my only point, for this committee wrestling with everything it is going to wrestle with over a week, was that some of the issues you raise are very important philosophical issues. How do you change what you call the mainstream organizations to provide the services and what is the best way to do that? They are very crucial recommendations. I am just saying, with all due respect to my colleagues and myself, you will not get thoughtful, measured responses in the one week we have to prepare our total budget response. The best I suspect we can do is to try to make some comment on funding for you and have those debates as you would want them, with the proper time and attention given to them.

**The Vice-Chair:** I am looking at your report, and one recommendation is the splitting of the costs between the federal government and the provincial government on the



funding. I think it is very important that we have a good working relationship with the federal government to the point where immigration increases could increase the budget of the Ontario government, unforeseen if they change the numbers of the number of people coming into Ontario. So we could set a budget and yet if they increase the immigration figure, it could throw the budget way out of line. I just wanted to make that comment. It is a good recommendation.

**Mr Curling:** It is a good point that you made and if I can follow from that one, that is the exact point I am going to make. This is the sort of copout that governments will do actually between governments and in governments themselves. The Canada-Ontario agreement on training itself, we saw it coming, you know, where the federal government is reneging on its responsibility.

Now, as a provincial government, do we stand back and then tell the federal government that the transfers of funds are not coming our way? I think there are things that they can do, as a matter of fact. As you said with the ACCES program, it is in a deliberate discriminatory way that our people in professions were treating our immigrants coming into that. They are wasting very good professional skills that can be plugged in because of their qualifications seen and the Canadian experience, that type of stuff. They were excellent people when they were being interviewed as immigrants coming into the country, because those are the qualifications, but as soon as they arrive, those qualifications work out to nothing. Now in saying all that, I think that you cannot ease up even on the government of the past, but if we had moved a bit faster maybe we would have got some of those things in place.

The present government, in this budget we are addressing, can look especially at the ACCES program, you say, and implement that very quickly. They can also give enough money within your groups in order to have good counselling, because you are down there in the grass roots knowing exactly what is happening. I feel that the pressure, if you want to call it that, should be placed very strongly in this committee and I am glad you see us working very co-operatively and that is a strong recommendation we should take, that at this time, as you know, immigrants are the last to hire and the first to fire. In our constituency office you can see the other people are coming in, losing jobs, losing their homes and then, as I said was stated by the presentation earlier on, the payroll moves from the private sector to Ottawa or to Ontario.

So I am saying to you too that the pressure you must place must continue not only from here, but we still have time that it can be reflected in the budget, that adequate funds are placed, immediate ones, and then you follow up on the others, equality, etc., etc.

Even with human rights themselves, and I do not want to give a speech, the Ontario Human Rights Commission has to be looked upon very seriously, whether it is dealing only with women's issues or with all the issues. Do not put the discrimination issues on the back of the shelf to be dealt with.

Would you then say, sir, which would be the priorities to put pressure on? Would you feel that the ACCES pro-

gram—and I am not blaming it on the federal government—transfer of funds—is the one to be addressed immediately?

**Mr Sinclair-Jones:** If you ask for priorities in a time of financial difficulty, I would—

**Mr Curling:** There is no financial difficulty. You have money; Ontario has money.

**Mr Sinclair-Jones:** I think, just coming back to a major difficulty which community-based agencies have is the delivery of essential services, that there is sort of systemic discrimination against the agencies, not just against the immigrants they serve. In terms of the major delivery ministries, the Ministry of Community and Social Services and the Ministry of Health, it has been virtually impossible for small, community-based agencies to obtain funding from those ministries to provide services which are the mandate of those ministries. They are not necessarily the mandate of the Ministry of Citizenship and they are not necessarily the mandate of the Department of Employment and Immigration at the federal level. They are in Comsoc's back. You try to get a grant from Comsoc if you are a small community-based agency based within a particular ethnocultural community and it is extremely difficult.

That is something that towards a year or so ago we were beginning to make some inroads into and we wish to see this government really begin to examine that question of the opening up of programs such that all groups which are able to provide services within a particular ministry's mandate are eligible to receive funding under those mandates.

1550

**Mr Sutherland:** I want to pick up on this point about funding and talking about the impact of this budget year. The federal Minister of Employment and Immigration has said—is it an extra 200,000 a year? Is that the correct figure?

**Mr Sinclair-Jones:** No, we are moving towards a total of 250,000 a year over a five-year period.

**Mr Sutherland:** And the current total is?

**Mr Sinclair-Jones:** It is not far off 200,000 at the moment.

**Mr Sutherland:** Increasing it by approximately 50,000 a year. I was wondering if you could give some feeling about what the impact is going to be? You have said 75% of the immigrants end up in this province to support the increase in immigration and the federal government doing that, but I am very concerned about what impact it is going to have on the provincial budget. They have made, it seems, a rather arbitrary decision to do that but from your indications they are not providing the support services that are going to be necessary to integrate these people into the Ontario community. I was wondering if you had some estimate of what it would be for an extra 50,000 people or 75% of that extra 50,000, what extra amount your organization as a whole would need to try to accommodate that.

**Mr Sinclair-Jones:** In percentage terms of the total immigration budget, very, very little. Part of the difficulty is that the total federal funding to community-based serv-



encies helping immigrants is only a tiny percentage of overall immigration budget. The major program is a program called ISAP, the immigrant settlement and adaptation program. That is only 3% of the federal immigration budget. The vast majority of the federal immigration budget goes on enforcement, on immigration, as opposed to helping people settle and become productive, even though the whole rationale for immigration is demographic and economic growth. It is a contradiction.

**Mr Sutherland:** So we have a real question here that the federal government is not providing the support services to integrate these people properly.

**Mr Sinclair-Jones:** Correct. And it is not providing in terms of job training, employment training, counselling. We are not just talking about initial settlement. We are talking about a whole range of activities which assist people to become economically productive.

**Ms M. Ward:** I want to ask you to expand or clarify for this section on immigrants in the labour market and your recommendation about the Canada-Ontario agreement on training. You say, "And further that the agreement recognize and enhance the role of non-profit community-based organizations in the face of continuing privatization." Are you talking there of training and skills programs that are provided by these agencies? I wonder if you could give me some examples.

**Ms Ogale:** You want examples of programs?

**Ms M. Ward:** I just want you to expand a little, if that is really what you meant, on the provision of programs by community agencies. I have heard in the past that there have been problems with funding, that it is not continuous. The funding may be granted for a short period of time, maybe only for a year, and by the time the agencies get the people in place—it takes a period of training and so on—by the time it is operational the funding is gone again and they are in the position of being in a state of uncertainty for some months again.

**Ms Ogale:** The funding that skills training programs get year to year, so every year you apply. I know of at least one program that was serving South Asian women, which is not operating now even though it was very successful, simply because the money was not made available this year and you have to reapply.

What we are saying is that because we know our communities best, especially because most of these skills training programs are for women, we know their specific language needs, we know how they can learn and what they need to learn, that it makes sense that we be involved in that training process. It seems that more and more of the money is being given perhaps to industry or whatever to carry out training, and it seems to us that workers who are already marginalized are probably going to be isolated from those training programs. So because we know these populations best, it makes sense to have community-based training programs that can deliver services in the community, because they are cost-effective and they reach the right population.

**Mr B. Ward:** I think my questions have been asked but I have not got the answer I am hoping to get.

First, as parliamentary assistant to the Minister of Skills Development, I hear what you are saying about the emphasis that should be placed on that aspect of skills programming in this province and give you this assurance, that on item 5.6 on page 12 I will make the minister, Richard Allen, aware of your concerns. Hopefully, they can be dealt with to some degree in the upcoming negotiations.

What I would like to focus on is 5.4—5.4 and 5.5, I guess, which pertain to the help centres. In Brantford we have a help centre, but we also have an Ethnoculturefest. It is an independent organization but does receive funding from the province to deal with counselling, etc. Are you suggesting that this province, when it comes to assistance for unemployed, etc—I am relating to Brantford again—rather than not having the best program available because some funding is going to Ethnoculturefest and some is going to the help centre, should be concentrating on the help centre and ensuring that the support system is in place at the help centre to deal with unemployed immigrants or ethnic people who perhaps do not have a full understanding of the system? Is that something we should be looking at? Is that what you are trying to get at with 5.4 and 5.5 on page 12?

**Ms Ogale:** Actually, access for new Canadians into help centres funded as a help centre. What we are suggesting is that there perhaps needs to be more done in terms of the help centres and in terms of the non-English population. A lot of help centres do not necessarily look towards the needs of a specialized group. We are not saying take money away from one and give it to the other, but perhaps expand funding or look at the different things a help centre should be doing. I know, for example, that our help centre will be seeing 3,500 people this year; 3,500 people is an awful lot for one help centre to see. Clearly, there is a need for another help centre within Toronto, but there is not one.

Perhaps what we are saying is that there need to be more specialized help centres, not just ethno-specific ones because all help centres right now are overextended simply because of the large numbers of unemployed people in Ontario. I think that is what we are suggesting, that you look at that.

**The Vice-Chair:** Thank you.

**Ms Maciulis:** If I can make a little comment. Mr Ward mentioned Brantford, and a help centre existing in the same locality. I would say we are not supporting the ethnocultural centre against the help centre or vice-versa. I feel that in those communities normally those organizations work together. If they do not, I think the same population would push them to work together for the population.

**Mr B. Ward:** If they are not, they should be.

#### TENANTS NON-PROFIT REDEVELOPMENT CORP

**The Vice-Chair:** Mr de Klerk, I believe? I just want to check; sometimes someone else has been substituted. Would you introduce yourself and your colleague and the group you represent? You have a half an hour, to 4:30.

**Mr de Klerk:** My name is Jack de Klerk and with me is Felies Einhorn. We are with the Tenants Non-Profit Redevelopment Corp. We will tell you a bit more about what we are about and what we are asking. I appreciate and I will say at the outset that it is a difficult task you face,



because you have just been talking about immigrant services and social services and we are going to ask that you now switch gears, not entirely but to a great extent, into the whole area of housing, which is another, some might say, black hole.

1600

**Mr Curling:** Could be a white hole, too.

**Mr de Klerk:** Yes, I was thinking of that as the words came out of my mouth. It is a hole.

The Tenants Non-Profit Redevelopment Corp was incorporated in 1989 as a result of efforts of the Federation of Metro Tenants' Associations and the Co-operative Housing Association of Ontario. The organization was given a mandate to work with tenant groups and assist them as much as they could in converting their apartments into non-profit co-operatives. We were given a start-up grant from the Ministry of Housing, its sector support program, in June 1989. Shortly after that we were told that we had a reserve allocation to convert 500 units under Homes Now. To date we have completed two acquisitions and a third is in progress. When we complete it in March of this year we will have used up our entire 500 units.

Our organization has received support from the Minister of Housing, and to the minister and to the government we want to express our support. We want to encourage the government, though, to follow through to a greater extent on its commitment before the election to make acquisition, rehabilitation or conversions a significant part of the social housing program.

Converting existing rental housing into non-profit co-ops makes a lot of sense. Affordable housing will be preserved, the housing stock will be preserved, security of tenure will be guaranteed and subsidized units will be available to those in need.

These objectives can be met through other legislative programs. What we want to stress is that the conversion program is much more cost-effective from a financial accounting point of view. And as true as that is, we want to say that the real reason, or the most compelling reason, for doing conversions is that it allows people to take a much greater role or to have more control over their living environments.

Tenants today remain second-class citizens. As a class they do not have access to the economic opportunities available to home owners. A recent Canada Mortgage and Housing Corporation study showed only 7% of tenant households in Toronto—it did not give or I did not see the figure for all of Ontario. For southern Ontario they indicated that it was on average about 20%; it varied, really, from municipality to municipality. Only 7% in Toronto could afford to buy a home.

Tenants pay proportionately higher municipal taxes. More important, there is a lot that happens in and about their homes over which they have absolutely no control. Will their building be sold? Will the rents go up again? Will the repairs be done? Will the harassments of the superintendent be confronted by the owner? Will something be done about the security problems faced by women? The list does go on and on, reflecting the fact that most of what

happens in a rental project is far beyond the reach of average tenant.

Creating co-operatives, on the other hand, can have a very positive impact on the personal development of tenants and the community through the process of empowerment. We have stood on the sidelines applauding political developments in eastern Europe. The people there have recaptured their own lives and their community. It is time to be serious about encouraging similar changes here.

Before I get into the background, I want to say that where we are going in our submission is asking the government to set aside more funds to allow these conversions to take place. It is critical, I think, given the time we are at right now, the economic situation being what it is, that the government act now to make the opportunity of converting apartments into co-operatives more widely available.

The idea of doing conversions is not new. In fact, since co-operatives were first established in this province, conversions have been part of the program delivery. In Toronto there are about 20 co-operatives created by converting apartment buildings into co-operatives. In the past 15 years during which co-ops have been developed, circumstances have changed dramatically. In the past few years, conversions were taking place only sporadically and under very significant conditions, first, that rents had to be set at a level that compared to market rents and, second, that the property had to be renovated to an almost-new standard.

These conditions had the effect of discouraging developers of co-operatives. As well, administrators of housing programs by and large indicated a reluctance to support these particular projects. Perhaps most important, the tenants found that the conditions were strong disincentives. Why would a tenant support a conversion if his rent was effectively going to be doubled and if he perhaps had to vacate his apartment for a few months and then move back in again, in the meantime settling somewhere else? This really discouraged tenants from supporting this at all.

The combined effect of a decade of rent regulation and the Rental Housing Protection Act has been to make conversions less attractive from the perspective of the previous programs. However, tenants have maintained their desire to gain more control over events and activity in and about their homes. Rapidly increasing rents and poor maintenance convinced tenants more than ever that changes are needed. Most tenants would prefer not to be fighting with their landlord over issues of common sense and daily life. As a result, pressure has increased to develop alternatives.

The announcement in the budget of 1988 of a housing program to create 30,000 new social housing units—don't get this wrong, Mr Curling, you should correct me; you will remember this—through new construction, acquisition of existing units and leasing existing units spurred the discussion of alternatives. The government of the day was convinced that program criteria for conversions would have to be changed if acquisition targets were to be met.

The co-op conversion working group met Ministry of Housing officials for months to work out details of a new conversion program. The allocation of units to the Tenants Non-Profit Redevelopment Corp reflected the change



the program. It was understood that tenants would not support conversions that resulted in rent increases larger than those allowed by rent review, nor would they support renovations that resulted in tenants being evicted.

In effect, Homes Now established that conversions could be done by limiting rent increases to the kind of increase that would follow in rent review if the acquisition was a private-market one, and renovations would be used in to capture the remaining usefulness of building structures and to protect against the kind of extensive renovation that resulted in tenant eviction.

The essence of how Homes Now works is set out in the pro forma which follows. The building is purchased by a tenants Non-Profit Redevelopment Corp with the assistance of a mortgage from the Ontario Housing Corp—the money comes from the Canada pension plan—for 100% of the cost of acquisition and renovation. Existing rents are applied to cover the borrowing and the operating costs. Generally there is a shortfall. The amount will vary, depending on what the costs and the rents are. The same holds true for any private acquisition, of course. The shortfall in a private-market transaction is a financial loss. As tenants Non-Profit Redevelopment Corp, or any other non-profit, cannot write off financial losses against other income, subsidies are required to carry the projects. These bridge subsidies, as they are known, generally decline over a number of years, depending on their original size and the proportion operating costs are of income.

The pro forma is set out and I will just review this briefly.

If you assume an acquisition cost of \$40,000 a unit—give me for being somewhat Toronto-centred here, but it is where I work and that is really what I am most familiar with—\$40,000 per unit is not an unrealistic cost to acquire a building. Just for your information, a year ago you would have paid probably between \$65,000 and \$70,000 per unit for the same unit; that is how much the market has come down since that time. Six months ago, and I am speaking very specifically in the time period before the election, that same unit probably would have cost \$55,000. It was quite clear the recession was having a very dramatic effect on the marketplace over the past year and, not surprisingly, the election of the NDP government and the government's announcement with respect to its plans for rent review have to a certain extent accelerated the decline of values.

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It is a reflection of the fact that a lot of the value has been created over the years because people were speculating on rental income streams, and to the extent that is curtailed, then the value is less and some people, because they bought right at the last moment and paid top dollar, are facing some fairly hard decisions about what to do with their investment.

With a \$40,000 cost, the soft costs were about \$5,000 per unit and the renovation costs—I have given two examples, one of \$20,000 per unit and another of \$10,000 per unit—those renovation costs will essentially make sure that the building has some up-to-date fire equipment, that there are some energy conservation expenditures for the

windows, probably an upgrading of appliances and a small amount of in-suite things. It will make sure the roof is up to date and, if there is an underground parking garage, will make sure that it is in good shape, for a total capital cost of about \$65,000 or \$55,000.

The interest rate from Homes Now right now is about 10.5%, maybe a little bit less today. But those costs result in financing costs of about \$570 a month in the one example or \$480 in the second.

The operating costs on average, and again these numbers vary—if you do less renovation your operating costs are presumably going to be higher, so those amounts are reflected there—if you assume a rent of \$550 for a one- or two-bedroom apartment, and—it might be a bit on the high side for a one or a bit on the low side for a two but in any case that is the number I picked, you will get a shortfall of \$370 on the one hand or \$330 on the other. You can see the \$10,000 difference in renovations results in a different shortfall of about \$40 a month. That shortfall of course is a bridge subsidy that comes to the projects from the government under the Homes Now program, and this subsidy would apply to every unit.

There is another subsidy which the members will perhaps be somewhat more familiar with, that is, a rent-geared-to-income subsidy, which would be available to tenants or occupants of a housing project who are paying more than 25% or 30% of their income on their rent. If you apply and you are eligible, then the government would subsidize your rent, and in this case we would be talking about the rent of \$550. If you had an income of, let's say, \$1,000 a month, you would obviously be spending 55% of your income on your rent. The government in this case would subsidize your rent so that you would only have to pay \$250. They would give you a further subsidy of \$300.

Typically, what you will find is in the normal co-operative housing project, the rent-geared-to-income subsidy levels are about 40% to 60% of the units. Just for your information, the average tenant household, or one out of three of the average tenant households, pays more than 30% of its income on its rent.

That is the pro forma that I wanted to just evaluate for a moment.

There is some difficulty in doing an evaluation of Homes Now because although the project was announced in the budget of 1988, the first unit allocations were not given until the summer of 1989 and only now in fact are the first projects coming on stream. Our allocations, because we are buying existing units and not building new units, are some of the earliest ones to come on. If a group got an allocation to build a new project in, let's say, the fall of 1989, they would be hard pressed, unless they had rezoned land already, to be even getting shovels in the ground at this stage. So it makes it very difficult to evaluate the program as a whole.

I think there are two points that should maybe not be so much considered as just made note of. The first is that I think as a delivery mechanism, Homes Now can be fine-tuned. There is no doubt about that.

Second, there is need for an ongoing program evaluation. I think part of the problem people have had is that



there have not been a lot of purely provincially funded programs. In fact, Homes Now is the first one. We need to let it run a little while or to get all the projects in, and then evaluate it while we are doing another batch of them. It is a real problem if you just stop everything and then do an evaluation, and then once the evaluation is complete say, "Okay, now we'll go on to something else." The providers in the meantime do not have any work.

It is critical, if you want to have an ongoing supplying sector, that in fact the programs are continuous. It is like a construction worker. If you are not building, you are out of work. Similarly with housing projects, if you are not delivering projects, then the organization is going to go under.

So in terms of evaluation, those are two things. I am not going to suggest for a moment even that this committee undertake that evaluation; not right now at least. Probably it is more appropriate to leave that to the Ministry of Housing. I simply want to make those points because the assumption is that if you are going to do an evaluation, you are only doing it because you intend to continue a program. If you are going to cut the whole thing anyway, there is not much point in doing an evaluation. The decision has already been made.

So we assume that the government intends to continue having a social housing delivery program, and we encourage this committee to come out and say that in bold print, if you like, because I think it is something that those of us who are working in the co-operative housing sector and the non-profit housing sector need to hear. We need to be encouraged to say, "If times are tough right now, we are committed to making sure that housing programs will continue."

It is even more important for the people who depend on the provision of social housing for their homes. There are lots of people, as I indicated, fully a third of the tenant households in Ontario, who pay over a third of their income on housing. If in fact those people do not believe there are going to be housing programs in the future, then they are going to start despairing about what the future holds for them. They need to be confident that there will be programs in the future.

I think it has to be clear that affordable housing can only be delivered on a non-profit basis. If there is room in the system for speculative housing, then it may be affordable to the first-time owner or the initial provider, but if there is room for profiteering in it and room for speculation, then the affordability will be lost in short order.

Part of the need then for social housing is for housing to come under the control of the people who live in it. I would like to make this point, I guess, that supporting conversions is as much a social program for community development as developing new housing is an employment or an economic stimulator kind of program. I want to stress that we think that is an important thing. If people have control over their housing, then it has lots of positive social repercussions.

The purpose of supporting these programs I think needs to be looked at. Homes Now to date has committed 500 units to the Tenants Non-Profit Redevelopment Corp. Another 775 units were converted in the City Park project

in Toronto. In effect, in the past two years, 1,275 tenant households won the lottery to get control over their homes. If the government keeps its commitment in An Agenda for People, then another 20,000 units of social housing will be generated annually, of which 4,000 will be conversions.

This amounts, I submit, to nothing but an enriched jackpot. It will take a lifetime before a significant portion of the tenant population has control over its own affairs. That problem needs to be addressed by this government. That problem needs to be addressed in terms of making opportunities available to more tenants. We do not suggest that the government go crazy in giving money away to buy out all the private sector.

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Two observations I would like to make relate to the issue of how quickly we should proceed. The first is that we need to take the time to develop better mechanisms than the Homes Now model. This may include better financing instruments. For instance, there are now mortgage instruments that are considerably cheaper than the 12% interest only mortgages provided by Homes Now. The federal index-linked mortgage costs about \$7 per hundred dollars. That alone is about 30% cheaper than the Homes Now mortgage. If you go back to the pro forma, the financial costs of \$570, if you reduce that by one third, then you are going to be more than halving the shortfall that you show on the bottom line there. In other words, if you take \$200 or so off of the \$570, then you are going to reduce your overall shortfall by \$200 or so of the \$300.

The other observation that I would like to make is that the acquisition cost today is less than 75% of what it was a year ago. This has resulted partly because of the recession and partly because some of the landlords had speculated that their property values would increase forever. They gambled and now they are deciding, or their bankers are deciding for them, to sell. In short, now is the time to begin. In order to take advantage of the economic climate and to begin the process of empowering tenants, the government must make a firm commitment now to make funds available to convert privately owned rental housing into non-profit co-operatives.

I stress non-profit. We are not interested in promoting the conversion of existing apartments into condominiums. Those funds must not replace funding for construction of new affordable housing; rather the object is to keep existing housing occupied by tenants today affordable so that they do not have to move into new projects to get subsidized apartments. If long-term affordability is to be realized, housing stock conversion is to be realized and if our democratic ideals are to be practised, then greater financial commitment must be put in place.

The costs are not great. The examples used above indicate that the annual cost is less than \$4,500 per unit at the outside. Obviously 10,000 units would represent a cost of about \$45 million. There are substantial benefits. First, rents increase annually, the subsidy would decline. Second, there are significant savings in terms of social welfare costs if rents are controlled in the long term. We have agreements with the Ministry of Housing to take refer-



n the local housing authority for a fixed percentage of vacancies.

Increasingly, the cost to government with respect to services, such as rent review, municipal inspections, landlord and tenant disputes, will decrease dramatically. It is possible to reduce the actual costs of the program even further if grants are made available for energy conservation improvement, if the government gave loan guarantees for provincially sponsored, index-linked mortgage security and if other improvements are made.

Tenants and the co-operative sector are committed to proving conversion programs. We need government commitment to fund them. Communities fostered by conversions establish new directions for social development, encouraging people to take responsibility for their own lives. They lead people in the direction of learning to live together. The object is to get people to outgrow the constraints that always arise when someone else controls your life and treats it and you like a commodity.

We ask you to consider this unique time as an opportunity at not too great a cost to invest in our future. The budget commitment is needed now and we ask this committee to recommend it now.

**Mr B. Ward:** I have a question of clarification, I guess, on the funding of your organization. I understand that you received a startup grant from the Minister of Housing from the previous government, which was a good initiative. How do you fund your organization now?

**Mr de Klerk:** Part of the Homes Now program and co-op programs, federally and provincially, has provided for what are called "organizational expenses." Basically what happens is we are like a consultant and we get a fee for doing the conversion. We share that fee—it is 2% of the maximum project capital cost—with the organization that sets up the co-operative, that does all the training. Usually there is about an 18-month or two-year contract that exists between the resource group, consultant group and the co-operative group. So we are sharing part of that.

**Mr B. Ward:** Okay. When you use up your allotment, though, does that mean you are out of business?

**Mr de Klerk:** Yes, we depend on projects in order to continue our operations.

**Mr Curling:** I am sorry we only have five minutes, I will get right to the point then.

I got rather frightened when I read this in many reports. I see affordable housing being delivered by the private and the public sector or in co-operation with co-ops. You almost seem to be saying that affordable housing can only be delivered through co-ops, and that part frightens me in a way.

The other part that really frightens me, I hope that the amendments to the rent review process that are coming in will not scare and frighten the owners of rental units into saying, "By golly, the government is coming at me. I have to settle for what I can get now," and then the co-ops or the other groups pick it up. That is what I am getting from the report. It says, "Grab it now, because those banks are on the case guys," when we thought that the co-operation be-

tween landlords and tenants and government was working out a way to deliver affordable housing.

Do you still believe that the private sector has no place in this market for delivering affordable housing?

**Mr de Klerk:** Well, I think that the private sector cannot deliver, nor can anyone else deliver, affordable housing without government assistance. That much is clear. It costs well over \$150,000 to deliver a modest two-bedroom apartment and, in order to carry that, you would have to charge a rent of over \$1,500 a month. That is not affordable. However it is done, it is going to need government subsidy. That is the point I think that a lot of people have made over the years.

The question then is, if the government is going to invest, how do you make sure that that government subsidy that is put in is not walked off with by someone in the future in terms of flipping a building or so forth? I am not saying the private sector cannot do it. What I am saying is that the current economic realities dictate that they will not do it.

**Mr Curling:** The co-ops' component of the tenants in there would be 50% who pay market rent and the other 50% are rent-geared-to-income, so you are not solving the problem in a very quick way anyhow, because that co-op can only take 50% market rent and the other is rent-geared-to-income.

**Mr de Klerk:** Basically it is reflecting what is there. What we are concerned about here—and I want to just address the issue of what is the effect of the government's position with respect to rent review and what it has announced—the people who are bailing out are not the people who have owned property for 10 or 15 years and who have paid down their mortgages and who have maintained those buildings well. Those are not the people who are in trouble.

The people who are in trouble are the people who bought buildings that have flipped three or four times in the last five years, at the encouragement of rent review, because rent review continued to pass on those financing costs. Those people purchased at the top of the market, and whatever the government would have done, as the market began to decline, those people were in trouble. It is just an economic reality that when you buy at the top, you are in the toughest position to survive.

1630

**The Vice-Chair:** Yes, I have to agree that your supplementary filled in the question a lot better.

**Mr Phillips:** I have three questions, I guess. One is, honest to gosh, I thought the minister already had announced the program for the next couple of years, so I thought that was finished.

The second one is, just using your pro forma, just so I understand it better, the rent number you show there is not the market rent, that is the average rent that is being paid?

**Mr de Klerk:** Well—

**Mr Phillips:** Let me get all my questions in. The Chairman only allows me one question.

**Mr Curling:** We have learned.



**Mr Phillips:** I am trying to get an idea of just what we are looking at over an annual cost for a 100-unit building, whether the \$550 is the average rent or the market rent and whether there is then something else we should think of, what geared-to-income supplement we should think about, just to get some idea, because one of the challenges in this program is that it seems like an annual expenditure. It is not like a one-time expenditure. I realize rents go up at some stage.

My third one, if you could just help me out a little bit, is: When I was in government, I had some concerns about using the co-operative funds to purchase existing facilities, because I felt that we are trying to get more units on the market. So I had kind of simplistically thought I would rather put our money into the construction of new facilities, and I realize there must be strong arguments I could not even get out of here.

So maybe those three things: first, the minister's announcement; second, the numbers, and third, the benefits of buying existing versus new.

**Mr de Klerk:** I will leave it to you to figure out, if the minister says something like, "But there is no money in the budget," what that means. Presumably there has to be some money in the budget in order for the minister to in fact give effect to the programs he has announced. That is one thing.

The other thing is, what I am asking the committee to do is to make a recommendation to the government apart from any standard government program that exists. If the government says, "We want to create 20,000 units, new or conversions, over the next year," that is fine. What we are saying is, consider something in addition to that.

The reason to consider something in addition to it is the market right now—and frankly, I am relatively indifferent as to why the market is the way it is; I do not understand those things a whole lot better than most people. What I do know is that prices are down, and it is not only for existing apartment buildings, it is also for land. You can buy land today at probably half the price it was a year and a half ago. So if you are going to have a housing program next year or two years from now or three years from now, it would make a lot of sense to buy the resources that you need to deliver those things now because you are going to save yourself a whole pile of money by doing that now.

**Mr Phillips:** The problem, by the way, is that I think also jobs, jobs, jobs. So for the government, that will be the challenge.

**Mr de Klerk:** Right, but let's say that figure that is going to come out is \$1,000. It is notional, right, but if it is \$1,000, and if in two years it is going to cost you \$2,000, then you are going to say, "That's a lot of money and I don't know if we can do—." So you are going to be losing jobs. If you could do twice as many for the same amount, you will create twice as many jobs. So by having the resources available because you bought them cheaply, it will give you more to work with in two years. So you will get more jobs. That is the one thing. We are asking you to do

something special now because of what the economic situation is.

**The Vice-Chair:** I would like to thank you for appearing. If Mr Phillips has any more or if you would like to talk to him and consult with him a little bit more—

**Mr Phillips:** I will get them independently.

**The Vice-Chair:** Thanks for appearing. We are running a little bit behind. We will have a meeting of the committee here after our last delegate.

DONALD WARNE

**The Vice-Chair:** Mr Warne, would you introduce yourself? Whom do you represent?

**Mr Warne:** Shall I distribute these?

**The Vice-Chair:** Yes, please.

**Mr Warne:** Introduction: my name is Donald Warne from Whitby. I assure you that I come with a brief because I know at this time of day you do not want to do a lot of discussion, but I have one point.

I should say something about my bias at this time. I am in favour of more taxes. So this is the point of whereases. The shape of my brief has something to do with my long years in the church; they always had that shape. You came with the "whereases" and the "therefore." So perhaps the structure would be for me just to briefly go over each of the seven "whereases" and then "therefore." Is that a satisfactory procedure?

1. "Whereas poverty is a major problem in Ontario with over 700,000 needing social assistance, over 300,000 of these being children;

2. "Whereas in Metro Toronto alone over 100,000 million rely on food banks, with nearly half that number being children;

3. "Whereas the SARC report, Transitions, shows ways in which the poor can begin to take responsibility for their own lives"—

I pause at this point to indicate that as a volunteer on the social planning councils of Newcastle, Oshawa and Whitby, I spent six years on the board of directors. It was at that time that the SARC report was being prepared and our social planning council prepared a brief to the government committee. I was the one who came to present the brief, and through that experience I became an aficionado for this report.

I was enthusiastic about the way in which the government and the committee were moving and it seems to me that reflected a widespread feeling across the province. The approach and the results were commendable. I know that people like Grant Devine came down to Oshawa. I was surprised to find that in Oshawa we have food banks. It is a surprise that in those energetic and prosperous years of the 1980s we, in the social planning council of Newcastle, Oshawa and Whitby, saw vast social problems that seemed to encompass wealth. It was a predicament for us.

Number 4, and I realize now I am facing some of you who were in that government, is not exactly to condemn that government. I realize that a budget of 1990 came down from on high from Mr Wilson and may have caused some of this.



4. "Whereas the previous government gave only minimal financial support to the first of the five stages of the implementation of the recommendation of the transitions report;

5. "Whereas the full implementation of the five stages of the SARC report will require the government to spend at least \$2.5 billion more on social assistance and income supplementation;

6. "Whereas the federal government's elimination of capital gains tax up to \$100,000 or \$500,000 has provided a major tax loophole mainly to the benefit of very wealthy;

7. "Whereas there has been no significant creative investment from this tax, but rather severe side effects and speculative spins in such areas as the real estate market—"

I pause at this moment to comment again upon the presentation you just received. It seems to me that part of our difficulty in the last six or eight years has been a speculative spin, part of which is the result of an abolition of capital gains tax up to \$100,000. It seems to me that if we had not had that abolition of capital gains tax, some of the problems that we face now would have been more readily dealt with. I myself pay capital gains tax, as most of you probably do. I have always had the feeling that a tax on that capital gain was an unfair tax. I do not deserve the capital gains as my total income.

10 Capital gains is partly the result of the whole community. Certainly some of us may be shrewd and make investments. It is something like a lottery. Some of us are lucky in making our shrewd investments. We think Nova is going to go up and we buy Nova. We sell at the top, \$11, and then it goes back down to \$8 and we are so sorry. We have a capital gain, but it is really the whole community that is involved in any capital gain.

So I see that capital gains should be considered as income. You will see in my "therefore" I am considering the whole capital gain. If the capital gain is considered as income, then it seems to me government will not be able to say to those of us on social planning councils: "Look, I haven't got the money. We haven't anywhere where we can get money." People do not want more taxes; higher taxes would discourage business. I say that the capital gains tax is in a special category.

The reimposition of capital gains is not going to discourage business, it is going to discourage a lot of speculation, but it seems to me it will put business on a firmer basis. I am not a statistician, but I think that we in Ontario, even though the federal government does not agree, we could therefore impose a capital gains tax which would enable us to say: "Look, SARC, it's a wonderful program." We can, without disturbing all those business people who are afraid of higher taxes, go ahead with these memorable changes to set the poverty cycle on its heels. I think Ontario has the legal ability and it is the right to do that.

So my "therefore" is simply to get to the other side of all our social problems and say yes, we can have the money and we can, if we wish, devote that money to a

program that even Conrad Black says is a worthy program. We can enable people to enter into that feeling of self-sufficiency and we can solve so many of our social programs.

I am open to your questions and comments.

**Mr Phillips:** Obviously you have been deeply involved in it. That is a thoughtful presentation. Just a couple of quick questions. On the capital gains, I had thought they had eliminated the \$500,000 and that it was down to \$100,000. My other one was that you mentioned the minimal financial support to the first five stages. Are you aware of what level of minimal support that was?

**Mr Warne:** I know it was supposed to be \$450 million, but it was not really.

**Mr Phillips:** It was more than that. We put in \$540 million. If you look at the Comsoc budget, which has doubled in the last five years, you will find \$540 million in there for them.

**Mr Warne:** I guess my documents come from another reading. The Campaign Against Poverty did a critique of the announcement Mr Sweeney made. There is a whole page of ways in which it seems as though many of these funds are already included. Many of the objectives that \$450 million would create had not been reached. So I am doing a different reading on that budget.

**Mr Phillips:** I am saying that if you examine the budget, you will find, I think, \$540 million in it now. That is only phase one. The new government has promised to fully implement it. When we are talking dollars, they are real dollars. You will find advocates here understandably will make their case as strong as they can, but I know from the finances, having wrestled with where we find the money, if you have examined the budget, you will find \$540 million in there for phase 1 of the SARC report. But I had thought the federal government had moved the capital gains from \$500,000—

**Mr Warne:** Well, my recollection is that the \$500,000 was retained for genuine farmers, and I did not expand this to say that if a farm is going to continue in farming there should be some special consideration given for that, especially when generations pass.

**Mr Phillips:** When the \$500,000 came out I think there were a lot of people worried about it. I think they changed it to exclude everybody but farmers. So, effectively, I think now it is \$100,000. It does not change your point.

**Mr Warne:** No. This is why I worded it as \$100,000 and \$500,000.

**Mr Phillips:** Yes, it does not change your point at all, and I think it is a thoughtful thought. I had better get out and see if I can find my \$100,000 capital gain somewhere. You have not benefited from it yet, have you?

**Mr Warne:** Not the \$100,000. Yes, it would be a conflict of interest if I had completed my \$100,000. No, I am silly in a way, because perhaps in the next five years I could use that \$100,000. It is silly in a way, but I really do not want to.

**Mr Phillips:** That is a thoughtful thought.

**The Vice-Chair:** Thank you, Mr Warne. We will consider your submission.

**An hon member:** Are we to have a meeting now?

**The Vice-Chair:** We will hold it off until tomorrow. We do not have any of the Tories here.

**Mr Curling:** That is all right. They do not count.

**The Vice-Chair:** They missed a lot today.

**Mr Curling:** We were talking about social programs that is why.

**The Vice-Chair:** We will meet tomorrow at the end of the day at 4:30 or 5, whatever time we get finished.

**Mr Christopherson:** You are in the chair tomorrow.

**The Vice-Chair:** No, no, I am not in the chair tomorrow.

The committee adjourned at 1647.



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économiques et financières

Consultations prébudgétaires

Président : Jim Wiseman  
Greffier : Todd Decker

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 31 January 1991

The committee met at 1000 in committee room 2.

### PRE-BUDGET CONSULTATIONS

#### ONTARIO NURSES' ASSOCIATION

**The Chair:** It is 10 o'clock. I would like to see if we stick very closely to the time frame this morning. We begin. Half an hour per group.

This is the Ontario Nurses' Association: Eileen Davidson, president; Glenna Cole Slattery, chief executive officer; and Carol Helmstadter, research officer. Welcome. You may begin.

**Ms Davidson:** Good morning. My name is Eileen Davidson and I am the president of the Ontario Nurses' Association for 1991. With me on my immediate right is Glenna Cole Slattery, our chief executive officer, and to my right is Carol Helmstadter, our research officer, government relations. To my left is Mary Hodder, associate director of labour relations, and to her right is Seppo Ruusimäki, research officer.

The Ontario Nurses' Association represents over 100,000 nurses working in Ontario hospitals, nursing homes, homes for the aged, public health units, the Victoria Order of Nurses and industry. We are pleased to appear before this committee to present our views concerning the 1991 Ontario budget. Our comments relate to expenditures on health care and in particular expenditures in hospitals.

One needs only to read the newspapers to realize that the nursing profession is in a crisis. There is a profound sense of dissatisfaction among nurses about their pay benefits and working conditions, all of which has been documented in report after report. The highly publicized shortage of nurses is the clearest indication of a crisis which we believe will not disappear. While some argue that the current nursing shortage is a short-term, cyclical phenomenon, we disagree. In our view, the current nursing shortage is the first manifestation of a permanent imbalance in the demand and supply of nurses.

On the demand side, three factors are fuelling the imbalance:

**An aging population:** Canada's population is aging as the baby-boom generation makes its way through the system. The proportion of those who are over 65 years of age will increase, creating a substantial demand for all health care services, including the services of nurses.

**The expanded role of nurses:** The role of nurses will expand significantly in future years as areas of expertise are created. There is overwhelming evidence that nurses are fully capable of assuming many of the functions currently performed by family physicians.

**Technological change:** The most pervasive factor influencing today's demand for nurses is technological change. By expanding the bounds of medical knowledge, technology has increased the range of physical ailments which can

be effectively treated, thereby allowing individuals to live longer. Patients are sicker, requiring a more intense and sophisticated level of nursing care. The physical demands, continuous pressure to keep pace with the rapidly changing base of nursing knowledge adds to the complexity that the nurse must deal with on a daily basis. The impact on the employer has been a rising requirement for technically competent nursing staff.

On the supply side, the problems are equally serious. Potential recruits do not choose nursing because it is not a desirable occupation due to low pay, poor career prospects, stressful working conditions, shift work and a lack of recognition.

Nursing must now compete in the marketplace for recruits with other occupations and professions newly opened to women. According to the Ministry of Skills Development, between 1986 and 1996 the supply of young people entering the labour force is projected to decline by 125,000. Not only must nursing deal with competition from other occupations and professions; it must also deal with a share of a shrinking pool of potential workers.

We are fully aware that the Ministry of Health is making an attempt to manage existing resources better. No one likes waste in a publicly funded system. Indeed, if wasteful practices are allowed to continue, then hospital workers can truly claim that their low wages subsidize an inefficient and ineffective system.

At this time I will ask Glenna to present some statistical data and numbers for the committee's consideration.

**Ms Cole Slattery:** I tried really hard to find something that would give the committee a comfort level.

**The Chair:** Just a minute.

**Mr Hansen:** I would appreciate if we could possibly have the clerk do a photocopy of what you have read out there, so we have it when we are going over it, because by the time we get Hansard we are not going to be having all these facts and figures.

**Ms Cole Slattery:** We can deliver you any materials that the committee would like between now and the end of the day.

**Mr Hansen:** Okay, that is fine.

**Ms Cole Slattery:** I was looking to give the committee a bit of a comfort level but it is hard to do. People who hold purse-strings—some people say those purse-strings very often translate into nooses. So I found this and I want to start with this. I am going to give you hard numbers. I am going to give you dollars and cents, statistics and hard numbers.

There was a good article in Maclean's on 23 February 1976, entitled "The Revolt of the Middle-Class Worker: An Inquiry into the State of Canada's Unions." It specifically deals with the so-called white-collar worker. 1976 was



not yesterday. It seems like yesterday to me, but it really was not yesterday. I think what you are seeing today with us here representing 55,000 white-collar workers is the truth of the Maclean's article. In the 15 June 1990 Toronto Star the banner is "Hospital Crisis Looms, Senators Say." That is true.

In October 1990 in the Star, "Engineers' Pay Topped Inflation for 12 Months, Study Shows," it talks about 57,000 professional engineers who got a median salary, which means half of those surveyed earned more and half earned less, of \$55,000. I submit that these engineers, if there was a magic wand that made them 98% female, would not have got that median salary. Not that they are not worth that median salary—I believe they are—but my workers do not get that kind of a median salary because they are 90% women, so I want you to consider that all that I say has an undercurrent of sexist discrimination.

This banner here, which I am sure you all read with interest on 15 December 1990, "Nurses Asking for Pay Raise of 50 Per Cent," appeared in the Toronto Star, and that is not a true statement. We have not asked for 50%. Having said that, shortly after that, on the next day to be specific, "Premier Won't Promise 50% Raise for Nurses." I do not blame him. Why would he promise somebody something that he had not been asked for yet? My past president and my current president were not interviewed. Indeed, we were out of the country when that article was written. I bring it to your attention for the possibility of consideration of sensationalism in journalism, because this gets everybody all hot and bothered, and quite frankly it is over nothing.

Now let me get to something. This union is on record for the last five years that we do not believe that our industry is underfunded. We believe that one third of the public purse in any given industry—if it is inadequate, there is something wrong, because after all, the citizen does need roads and bridges and fire and police and all those other fine things. So we are not saying that this industry should be funded in a larger dollar degree. This is nothing new. We have been saying this for months. We do not believe any new money is needed if the current fiscal resources are properly distributed. I am going to tell you right now that I suspect my testimony will be a bit at odds with the Ontario Hospital Association. Quelle surprise, right?

1010

I am going to leave with you with some really heavy questions. If I could have found the answers, I would have given you the answers as well, but I believe that the answers are only able to be accessed by government. You folks were elected to do for better, for worse, a lot like when you get married, only usually marriages—well, not lately. I was going to say they last longer than a government term.

[Laughter]

**Ms Cole Slattry:** What are you laughing about?

It is the distribution of the wealth, and there is wealth other than financial wealth. Human resources are far scarcer for any country in the world than money. You can steal money; you cannot steal human resources.

The province of Ontario has been on record since 1953—in case there is a Progressive Conservative member in the room who would like to be reminded, it was a government that said it believed in equal wages for women. Now we are pushing 40 years later and all three of you have had a shot at this. Somebody better get it right, I am going to start a feminist party and take the place of the one that did in Iceland.

Back to the 50%: My workers got a 50% wage increase in 1974 when they threatened a province-wide strike and since then they have got diddly. In fact, twice they were under an AIB and once they had their wages rolled back. For the NDP people here who represent workers, if you consider a 10% a year increase a wonderful increase, then that is what they got from the Simco award. They have had it, bottom line.

In the last three years, during boom times for this province, their wage was 4.4% per year for three years. What we are looking for in this contract round is 3% of the total health care budget. It would be a 30% raise over two years. Don't want to give it? No problem. They are going. They know they are essential services. They know they cannot strike. They are going, which is worse than if they struck. At least if they strike, they are standing around looking at you.

Beds are down. Staffing is down. First question: if admissions are not down, then the question is, has the quality disappeared? I suspect that it has. You should be aware that they are using second-year nursing students now and calling them staff in some hospitals in this province.

Now I am going to get down to the numbers and I suspect this is the reason why—this is page 10, January 1991 from the publication Hospital News. It is editorial notes. I will give you this because I thought if they knew I was going to use this here they might not have put it there. "Here are some hospital facts and figures to dazzle friends with." Stay tuned. I am about to dazzle you.

The 1990 budget for health care, according to Ted Bledsoe in a speech in October to the OHA seminar, was \$15.5 billion. We had a hard time at our house wrapping our head around a billion dollars until somebody finally figured out a billion dollars is a thousand million, which made it a little bit more manageable in my mind. I am going to round this sucker off to \$15 billion. Forget the \$700 million that 0.7 means—just \$15 billion.

According to the OHA, and I have taken it from this tiny little piece of paper here, the amount of the health care budget that they get is 44%, and 44% of \$15 billion comes down to \$6.6 billion. We need to keep these in mind. They say that the amount that goes to doctors is 32%, which is \$4.8 billion. They say that other health services, and I suspect that is community health and what have you, is 20%, which is \$3 billion, and senior prescription drugs is 4%, which is \$0.6 billion.

Let's go back to their 44%, their \$6.6 billion. That is a lot of money and that is not their total budget. I am going to tell you their total budget. They also say in the article that there are 110,000 total RNs in the province, which I suspect, a true figure, because it is our figure from the



llage of nurses, but 25,000 of them do not work so just  
atch that right down really quickly to 85,000. I suspect  
at 10,000 of those people are nursing administrators or  
ch positions and 10,000 of them are educators, which  
ives 65,000 workers, of which 55,000 are in our union.  
is 90% organized, is what I am leading to.

The total number of doctors—this is another important  
ure—is 18,000. The OHA says that the total number of  
ll-time employees is 130,000 and the total number of  
rt-time employees is 60,000, giving a total number of  
ople working in hospitals of 190,000. I have a question  
ark there and I will tell you why. Our statistics on our  
embership are very, very accurate because we bring in a  
avy due and we give back to the member at the local  
vel the local cost for education and travel. We keep sala-  
s and the whole bit. So we need to keep very accurate  
atistics on where our members are, whether they are full-  
ne or part-time or what have you, for local dues alloca-  
ons. We know that we have 55,000 and we know that we  
ive 24,294 full-time equivalents in the hospital sector.  
e also have 24,622 part-time in the hospital sector.

For purposes of discussion, we chose to look at the  
rt-timers as each of them working two and a half days,  
aking up one full-time equivalent, so that leaves a total  
36,605 FTE registered nurse category employees in the  
ospital. We have been told that for every nurse there is  
another worker in whatever other category, so if our statis-  
cs are right and I know they are, then it is approximately  
2,000 workers in all categories in the hospitals. My ques-  
on is, where did they get 190,000? I bet you 50 cents that  
e rest of it is their administrative staff. That is a joke.  
ou are supposed to laugh.

**Mr Christopherson:** It is not funny. It happens too  
ften.

**Ms Cole Slattery:** I know. Here are some statistics  
om your own government, a new study out. The average  
ge of a registered nurse in Ontario is 40. Nursing school  
rolments have declined, we hear, about 25%. It is imper-  
ive for this government, for the loyal opposition and for  
e third party to understand that for the entire industry to  
urvive the RNs who are in the system must not leave it.  
hey must not leave it or you have some problem. I do  
ot. I have lots of friends to take care of me if I get old, but  
ou guys will get old just like I do and you do not have  
at many friends to take care of you.

ONA's statistics show that decline in membership be-  
ins at step 5. We have a nine-step grid. Really, it is 10,  
ecause the start is the first step. It ends up at the ninth  
ep. Step 5 is where it goes down. I am going to pass this  
round when I am done. I did not give it to you now  
ecause you would look at it instead of listening to me.  
his is the 1990 grid. It gives the existing wage. It shows  
ou the existing span between years and it gives you the  
percentage of our membership at every level. You are not  
going to like it when you see those percentages. Steps 5  
nd 7 show the smallest number of workers in the nine-  
ep grid. Step 9 shows almost 40% of our total workforce.  
ne would believe that these numbers at step 9 will re-

main until retirement is reached. I suspect that the people,  
the women, in step 9 are well over 40.

The future manpower planning is seriously affected by  
the apparent decline in the RNs willing to enter the profes-  
sion and stay in the workforce long enough to move  
though our grid. Over the past four years, many studies  
show, including ONA's, that women are dissatisfied with  
wages and conditions, between 5% and 7%, and were  
making plans to leave in 1988. The span between the steps  
very clearly shows a built-in lack of incentive.

In 1980, 35 cents per hour was put in shift and week-  
end premiums. In 1984 this was raised by 10 cents and in  
1991 it remains at 45 cents an hour. This is totally unac-  
ceptable in a workforce that is summarily assigned by the  
boss 24 hours a day every day of the year including week-  
ends and holidays. Longevity is totally ignored by the  
boss, even after 15 years at work, and RNs are still forced  
to rotate all three shifts, work weekends and holidays at  
the whim and will of the employer's representatives. That  
ain't going to go on any longer.

In some areas of the United States an RN gets \$5,000 a  
year for working the second shift and \$10,000 a year for  
working the third shift and that is on top of a healthy base.  
Our workforce is assigned forced overtime on a regular  
basis, regardless of their family responsibilities and their  
own physical status. This is no longer acceptable to the  
workers. It is my belief that they will not strike or disrupt  
the system. They are beyond that. I believe, and I have  
been in their midst now for five years, that if the grid is not  
successful, if our wage demands are not met, the workers  
below step 9 will just quietly go on to other areas.

## 1020

If I cannot help them take control of their profession  
and find justice and remuneration within their—and it is  
their—industry then I will help them attain their life's  
goals in any way I can. They are bright, committed, ener-  
getic and decent. They deserve a job, somewhere in the  
world, that rewards those qualities. Becoming an RN does  
not mean you are an indentured servant. These men and  
women can retool and retrain and enter any workforce they  
want to. A hospital sells nursing care like a bank sells  
money or Beckers sells milk. If you take everyone but  
RNs out of the hospital, including the administration, you  
still have a hospital. If you leave everybody else in and  
take the RNs out, you have a very expensive hotel with  
bad food.

The costs for technology are staggering. What good to  
the taxpayer-patient are any of these machines if the RNs  
that interpret the generated data are not there? The ma-  
chine does not run down the hall and say "Hey doc, this  
patient over here is going to die if you don't get here." The  
machine clicks along ad infinitum. It is no good to any-  
body unless there is a nurse there to interpret it. Why is  
there almost unlimited funds for machines and no funds  
for workers in this industry? Lots of funds for administra-  
tion, lots of funds for technology and machines, no funds  
for workers.

Historically, politicians have been misled by hospital  
administrators on the so-called nursing service budget,  
which was always allowed to be interpreted as RNs'



salaries. With all due respect, I would suggest that it would be interesting to see this budget if the so-called hotel charges were carved out and the actual dollar figure of RNs' staff salaries in aggregate was examined. No government in North America has been willing to do that, to the best of my knowledge, and I have been fielding this stuff now for almost 20 years.

Our demands at the bargaining table are generated by our membership through a "Have-A-Say" questionnaire that went out to 55,000 people. They have always done it this way. We structure our bargaining objectives from the members' responses. Membership sits on internal committees at every step of the process, up to and including the hospital central negotiating team which comes to the table with the staff. I am putting this in so you do not think it is just me. They have been doing it this way for 18 years. It is them. It is my belief that the wage demand we have on now—and I might add, nobody has asked me from the hospital side how this could be implemented, the wonderful way it could be implemented. I am well aware that the problem is 1 April 1991. I am well aware that the implementation, from the management and government standpoint, is, in many instances, more important than the amount. Nobody has asked me yet how I would do it.

It is my belief that our grid is the only way to retain seasoned workers currently in the system, and also draw back those seasoned workers who have left the industry. You would bring them back into the taxpaying workforce and you would end the current nursing shortage. Futuristically, it would also eventually attract young women and men into schools of nursing and guarantee a continued labour pool. You cannot add your continued labour pool.

It is 3.3% of the health care budget I am looking for.

Here is your first question. How is it fair—these are the Ontario Hospital Association's numbers—that 18,000 MDs get 32% of the provincial budget, which translates out to \$4.8 billion. How is that fair? If I got every wildest dream imaginable, if I got everything I asked for the registered nurses, our wages would be \$2 billion. How can anyone expect twice as many RNs to continue to work in the system if half as many MDs get twice the government funding? This means that for every 50 cents an RN gets, a doc gets 2 bucks. How can the doctors continue to work if the RNs leave? They will tell you they cannot, and they are right.

What would happen to care for citizens, even if, as it appears, no concern is given to quality of care and safety of patients? It ain't the machine that watches you, and it ain't the doc. It is us.

I told the OHA last week that if it had treated us fairly over the past 18 years, if it had brought us along in the same way it had guaranteed its own salary progressions, instead of stiff-arming and demeaning and disdaining us, then there would be labour-management harmony today rather than an angry and frustrated workforce that totally distrusts the goodwill of the boss. They have themselves an industry at the brink of collapse.

I am coming down to my last couple of questions, which really are the most interesting questions: The OHA generates 19% of its income itself. It says so in their little

paper. If they get \$6.6 billion from the government they generate \$2 billion, that is \$8.6 billion. If I say, and do say, that the wildest dreams of the nurses could be realized for \$2 billion—you are already paying them \$4 billion—and if the statement I have heard is true, that there is another worker for every nurse, and those workers are not at our wage level, but let's say they are: put another \$2 billion, \$4 billion for wages, in an industry that has \$8.6 billion at its disposal. Where is the beef? Where is the other \$4.6 billion? That is a question that only the seasoned majority can find out.

While some of you in this room are businessmen, many of you in this room are trade unionists and you know what it is to look at a wage grid. You know every body's single largest item on his deficit is the wages, as wages should be. Who does the work? The people do the work. Here is an industry with \$8.6 billion, and in the wildest possible stretch of anybody's imagination, I will say, only \$4 billion for wages; where is the other \$4.6 billion?

Thank you for your attention.

**Mr Phillips:** Thank you for that presentation. I have a few questions, because I can see over the next two months the possibility of a fair bit of conflict. I think all of us want to avoid that.

By the way, I will declare a bit of a conflict: my brother is a nurse.

**Ms Cole Slattery:** If I had known that when you were the Minister of Labour, I would have made you let me in. You never let me in to talk to you.

**Mr Phillips:** I was open. There was never anybody who wanted to see me who could not see me, ever, ever.

**Ms Cole Slattery:** Oh, do not say that. That is totally true. You may not have been aware I wanted to talk to you, but I was not successful in getting in.

**Mr Phillips:** I saw groups all day long, all the time. The question is this: When the OHA was in, they said my numbers are correct—first, the grants will be announced to hospitals in the next couple of weeks. I will give you a series of questions. I would like your comment on what that grant level should be, because I could see that is going to be a major determinant in your negotiations.

**Ms Cole Slattery:** Why are you throwing grants away after bad? Why would you give them more money when you cannot find out what the hell they did with the money you gave them last year? As far as the grants are concerned, they want a 13% increase here. They were funded under your government, sir, with—I forget—the percentage of cost of living or whatever it was. It did not roll.

**Mr Phillips:** It was 9%.

**Ms Cole Slattery:** And your government brought down pay equity. They were told to lay aside 1% of wages ever. Three years later, we have seen zip. And you know what? I expect we are going to see zip. They have not been fiscally accountable for what they knew were going to be—I tell you, I have a staff and they know they are going to work next year for what they worked for this



ood lord, everybody knows that. Is anybody in this room going to? You probably will, because you do not want the public flak for raising your salaries. This is ridiculous. You have more and more and more money to do what? Go and spend that \$4.5 billion. Anyway, if they got another \$10 billion in grants, we would not see it.

30

**Mr Phillips:** I am just trying to get my question out. The grants will be announced in the next couple of weeks. The OHA, when it was in here, said that 75% of its expenditures went to nurses and other staff, unionized staff. I think they said that roughly 36% or 37% was for nurses and the remainder for their other unionized staff. They suggested to us that, because of arbitration, the pattern had been set with their other organized staff at around the 8% level, so that was the basis on which they were looking for their 13% grant. I am just saying that I can see coming in the next couple of weeks the grants to the hospitals, and if the grants are not what the hospitals need they will say: 'Well, we cannot possibly provide what I think'—

**Ms Cole Slattery:** Good, and you will be saving a lot of money because you will be able to padlock half of them. If you think my workers, having gotten zip for almost 15 years, are going to settle for 8%—that is not going to be.

**Mr Phillips:** I am trying to support you here, Glenna. I am with you. I think you are suggesting that the range of request will be 30% over two years. That is what I think you said in your opening remarks.

**Ms Cole Slattery:** Yes.

**Mr Phillips:** I just want to be sure, now that we are in the role of the loyal opposition, that when the grants come out I have some idea of how the nurses, the ONA, will respond to them, because that will be the pattern set for negotiations. That is my first question.

My second one is in terms of pay equity, because I can see that that will also be, "Well, you'll get your just reward under the Pay Equity Commission." I would like your response to that. Is that what you would accept as an answer, or really is it going to take place at the negotiating table?

**Ms Cole Slattery:** First, we are at the table. We are at the table with the OHA, we have a bargaining session next week, and we go into mediation conciliation the week after that, and then we are off.

My membership is going to call this shot: 8% ain't going to do it. Pay equity is over here, wage negotiations are over here, and it is so stated in the legislation. I will only do one thing at a time. I tried to do pay equity for three years and I got stiff-armed and stopped everywhere, including by the Attorney General of Ontario under your administration, sir, after I had won that debate at the tribunal and at the Divisional Court. The government that passed the bill came in and opposed it in the appellate court. So I have a bit of a problem with what I am ever going to get out of pay equity.

So that is over there. That is a philosophy that this union can afford to pursue. Our wage demands are practical realities that the government ignores at their peril. These women are smart. They like what they do.

**Mr Phillips:** Some men.

**Ms Cole Slattery:** Some men. Two per cent, two out of a hundred. God love them, and they must be braver than lions to be there. The fact of the matter is, unfortunately, for the majority, you are facing an angry white-collar professional group whose anger has been 18 years being born. This has been a long gestation, but it is born. I think it is totally justified.

We never got any money in boom times. Dr Martin Barkin told a group I was part of at one time that the interesting thing about the health care industry is that it is recession-proof, because legs do break and babies do get born and stomachs do get holes in them and have to be taken out. So it is business as usual for health care.

And another thing: We do not feel guilty. What the OHA does with the rest of its workers is the OHA's business and the unions that represent those workers. But I am getting sick and tired of having people try and make our workforce feel guilty if we get 29 cents more than somebody else has managed to negotiate. I am telling you, without us you ain't got an industry.

One of the things I am going to give you—and we will bring over before your session is over this afternoon the president's remarks. I brought the 1990 wage grid. Actually, the proposed grid was at the bottom of it, but I thought, well, after next week I can share that with more people than the OHA.

There are two things of interest here to trade unionists in the room and to any elected official, because I am showing you with numbers. The centre line is the existing wage grid that is in place today and has been in place since 1 April 1990. It is that which disappears 1 April 1991. The line above it is the span. I start out at start, and I am 21 years old, and I work until I am 30 or 40 or 50 or, God forbid, 60—although I will be 60 next summer so that may not be so bad. The ninth step is it. That is it, that is as good as it gets no matter how old you are.

You will see at the top line the span between the grids, in other words, what coaxes the Carol Helmstadters with three or four degrees. This woman used to be a neurological nurse over at Wellesley. What coaxes this woman who works in the operating room up in Parry Sound or that fine young woman, well, that nice lady from Thunder Bay, who is an ex-OR nurse? She has a baccalaureate and used to teach. At one point in time she serviced every bargaining unit north of the 401 for our union. She was on board long before the union was even a union. Would this bottom line keep us? We are all quite smart. I am sure you can see that.

What is interesting to you is the percentage of our members at each step of this grid. You are not going to be happy campers.

**Mr Phillips:** You have already won the point on the increase. The Premier has promised that.

**Ms Cole Slattery:** No. The Premier of Ontario has promised my union nothing. His government, as well as when he was in opposition, has made very firm commitments to women's equality, women's empowerment and women's wages. I expect he is an honourable man and I expect I am better off with him at this particular stage in



the life of my union than anybody else in the world, but he has not shook my hand and said, "You've got it, Glenna." Because I am not negotiating with him. I am telling the representatives of the seated government that I think you are all being jerked around by the OHA. I have got no quarrel with the Premier—yet.

**Mr Phillips:** We are trying to figure out where the money should go. You are saying the money is already there in the hospitals, just reallocate it.

**Ms Cole Slattery:** That is what I am saying. Find out where the \$4.8 billion is if the \$4 billion is wages.

**Mr Phillips:** I think we should get that number if we can. The OHA said three quarters of its budget went to nurses remuneration and the rest of the unionized staff. You are saying that if it is 50% you would be surprised.

**Ms Cole Slattery:** I developed these statistics at the high upper end, but I can tell you exactly how much the existing payroll for RNs is today as we sit and speak: \$1,545,780,000. This is based on 41,000 workers. I have already told you that I only have 36,000, but I threw in the other 5,000 for the nurses who work in this province who are not in my union at the staff nurse level.

**The Chair:** I am going to interject at this point. I am going to give you about two minutes and we will have to wrap this up, because we have other presentations this morning.

**Mr Sutherland:** You have said that there is enough money in the system. I want to talk to you specifically about the area of management of the health care system. I want you to give comments about where you feel there are some specific areas where changes can be made in terms of the money, the \$4.8 billion. You are asking where it goes, but obviously your membership knows where some of those savings can be made. I want you to focus that in terms of nurses' roles in the decision-making process and what progress has been there and what more progress do you feel needs to be made?

**Ms Cole Slattery:** First, I think they spend an unconscionable amount of money on consultants. There is hardly a hospital that belches without the consultants' approval. I would take a hard look at that. The technology has turned into competitive warfare: "My hospital is better than your hospital." Excuse me? You are four blocks away for God's sake, and you both have a machine that costs \$1.5 billion and there are only three of us in the province who need it? I mean, something has to be done. That is the most poor planning. I have said it for years. You turn the industry over to the staff members because we give the place the care for half the price. Very top-heavy administration. Carpet on the administrator's floor, another parking lot—they need another parking lot. You know, this goes on. There is money for everything but the nurses.

Now, the last part of your question was—

**Mr Sutherland:** About nurses' roles in the decision-making process.

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**Ms Cole Slattery:** You are talking about the right. Mrs Caplan, God love her heart, gave us rights so that we

could get duly elected as staff nurses to every committee the hospitals. Forget that. I do not think 15% have complied. In fact, a couple of weeks ago, or a month now, had a nurse up in Peterborough who was duly elected and went to a committee escorted out by the director of nursing service at the request of the physician chairing the committee. What was really funny was the press was allowed stay.

So we have real sexist problems in this industry, but we were involved more—I suspect you would find Carol Helmstadter and myself and Mary Hodder and Leen Davidson are not unique. You are looking at it. You have thousands of them like us. We are not unique. The people are the people who are doing the work.

At the public hospital steering committee a week ago had a real problem. They are opening the Public Hospital Act and the steering committee is going to give recommendations to government. They are going to take all power away from the doctors. Good. They are going to give it to the hospital administrators. Not so good.

You know, this is a sexist system that is built on male, white hierarchy, which I am looking at right now absent this fine gentlewoman. Excuse me Mr. Curling did not see you down there. But you know, years ago I saw the only thing the women's movement did was put a black man in the white woman's place and put the white woman one step below, because white men are more comfortable with black men than they are with white women.

The fact of the matter is that we are 98% female. It is a labour-intensive industry. The entire industry is 80% female and it is one third of the public purse. You got a problem.

**The Chair:** I would like to thank you for your very animated presentation this morning. I would like to thank you for coming.

**Ms Cole Slattery:** My pleasure. Thank you for letting us come. I appreciate that. We do not always get invited to dances. It does not necessarily mean we do not come, but it is nicer to come with an invitation.

**The Chair:** Thank you for responding to it.

#### MUNICIPAL ELECTRIC ASSOCIATION

**The Chair:** Our next presentation is by the Municipal Electric Association: Frank Hueston, chairman; Jo Wiersma, president; Tony Jennings, chief executive officer. We are awake now. We are focused.

**Mr Hueston:** Mr Chairman, I would comment that I have copies of my introductory remarks for each member of the committee and what I have to say will not be exacted in what is in the written word. In an effort to leave some time for questions and answers I have shortened up the written text to some extent. I suspect that you are quite familiar with the gentleman on my right, Mr. Wiersma, not only president of the Municipal Electric Association but general manager of Pickering Hydro; myself as chairman of the Municipal Electric Association and as chairman of the hydro electric commission of the town of Port Hope; the chairpeople from the association coming from the political or elected side; the president, vice-president coming from professional staff.



Mr Chairman, I am pleased that we have the opportunity to speak before this committee. The Municipal Electric Association represents 315 municipal electric utilities in the province of Ontario. Ontario's community-based electric utilities are publicly owned and supply electricity to villages, towns and cities on a full cost-recovery but not-for-profit basis. Together, they serve 2.7 million customers, delivering 70% of the power, representing \$5.6 billion used in the province, to some 75% of the customers.

Throughout this century, Ontario has gained from the commitment of the principles of public power at cost. No other public service is financially self-supporting. Ontario Hydro and the municipal electric utilities have a unique wholesale-retail relationship which provides the citizens with the highest level of reliability and service while introducing no tax burden.

The Municipal Electric Association provides the means for the member utilities to take joint action. Much of this effort is focused on joint development of standards and practices to better serve the customer or to respond to the legislative and other changes in the working environment.

The Municipal Electric Association also represents the common concerns of the members.

The Municipal Electric Association has five recommendations it wishes to make to the Legislature and the Government of Ontario.

1. The goods and services tax: Despite representation by committees of both the House of Commons and the Senate, the federal government has insisted that electricity be the subject of the goods and services tax. Other countries have introduced value added taxes that have provided special treatment for electricity. Notwithstanding that some have felt that similar special treatment had to be extended to other home-heating fuels, electricity's importance was recognized.

In Canada, exemptions or zero rating has been extended to other services. Is publicly supplied water any more critical than electricity to life in the 1990s? Food consumed in the home is not taxed. Is it consistent to tax refrigeration, the means of preserving such food? Medical services are not taxed, so why is electricity to run a home dialysis machine any different?

The federal government provides tax rebates to other services and yet this public service, which is the only one that is self-financing, is expected to bear the tax burden. It is treated on the same footing as profit-oriented, privately delivered energy forms. Why is electricity singled out? Correspondence from the federal government would suggest that this is largely because the books are separate and its taxation is easy, as opposed to other public services where funding is mixed in the general tax revenue.

The goods and services tax was to be offset by the removal of pre-existing federal sales taxes of up to 13%, yet Statistics Canada data suggest that federal sales tax content in public utilities is no more than 1% and therefore the net effect to the individual ratepayer is a 6% increase.

Except in adding unproductive work, the goods and services tax does not affect municipal utilities. They, like

other businesses, must pass the cost along to the consumer. The ratepayer is the one who suffers.

Despite the general tax relief cited by the federal government, this approach strikes the rich and poor alike. How severe is this regressiveness? It is interesting to note that those who can afford to invest in energy-saving strategies can reduce the tax impact.

We should return to the principle of power at cost.

It is therefore recommended that the Legislature of Ontario and the government of Ontario in their dealings with the federal government should continue to oppose the taxation of electricity through the goods and services tax.

2. Ontario's retail sales tax: The new government has expressed its strong dissatisfaction with the goods and services tax strategy. In speaking about the increase in Ontario Hydro's rates for wholesale power, the Honourable Jenny Carter, our Minister of Energy, expressed specific concern over the impact of the GST on consumers of electricity.

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Precisely the same concerns that applied to the GST apply to any extension of the retail sales tax to electricity. The current economic situation gives the government of Ontario a challenge which will not be easy. The temptation to follow the lead and tax services may be difficult to resist.

Public electricity affects virtually every citizen and resident in the province, and it is therefore recommended that the provincial sales tax should not be extended to electricity.

3. Water rentals: Public power in Ontario was established in this province to secure for Ontarians the benefits of their indigenous sources of energy at the cost of supplying that energy. There were to be neither tax-based funding to assist in this regard nor profits or other extraneous charges. The basic principles of power at cost have been eroded by ever-increasing levels of water rentals. As ratepayers of this province, through our publicly held generating and transmission company, Ontario Hydro, we pay to briefly rent water moving through the generators and turbines. Our public, non-profit company pays rents to our government. Rent implies the landlord has associated costs. In this case, there are none. Is this power at cost?

The concept of taxation of an agency owned by the public for use of a publicly owned resource is fundamentally indefensible. The current government has called for increased attention to Ontario Hydro's proposals for new power generation. Such rents on the use of public waters affect the economic viability and competitiveness of water power.

The members of MEA have long sought to have water rentals eliminated, yet we recognize that this may not be the time to ask the government to forgo a long-standing source of income which its predecessors have enjoyed. It is therefore recommended that the level of water rentals charged to Ontario Hydro not be increased.

4. The debt guarantee charge on Ontario Hydro: The debt guarantee charge does not fall into the same category. Introduced in the 1989 budget, this charge does not represent even a temporary use of resources, nor does it



recoup a cost incurred by the province on Ontario Hydro's behalf.

Ontario Hydro borrows with the approval of the government. The province normally guarantees Ontario Hydro's debt. This notional transaction has carried on for years. But suddenly in 1989, this service was to cost half a per cent of the outstanding debt. The introduction of the debt guarantee charge increased by over 2% the rate which Ontario citizens pay for electricity.

Is this a tax? It certainly does not reflect a provincial cost nor, given the assets of Ontario Hydro, does it reflect any actuarially sound prediction against the likelihood that the guarantee would be called into play. There is a notion that, without the guarantee, Ontario Hydro's cost of borrowing would go up by this amount. There is no evidence of such an increase. A half a per cent increase is highly unlikely, given Ontario Hydro's assets and its reputation in the market. The only valid test would be to let Ontario Hydro borrow without the guarantee. Let the marketplace put a value on the guarantee, if there is one. Particularly when the new government is expecting Ontario Hydro to undertake new expenses for critical energy management activities, the Legislature and the government should seize this opportunity. We should minimize such impacts on the province's electricity consumers and, at the same time, right a recent wrong.

It is therefore recommended that the debt guarantee charge on Ontario Hydro should be withdrawn.

5. The cost of public hearings: A growing cost of supplying electricity in Ontario is the cost of participation in public hearings on rate reviews or environmental matters under various Ontario statutes. In most municipalities in Ontario, a hydroelectric or public utility commission is elected by the voters to ensure that reliable, low-cost electricity is supplied to its community. Through the Municipal Electric Association, they take part in these hearings to ensure appropriate consideration of the concerns of the electrical consumers they represent.

Utility commissioners support due process and thorough review, yet they are rapidly coming to question the cost-effectiveness of some of the current processes. The Ontario Legislature and the Ontario government should also be concerned, particularly when the proponent appearing before the tribunal is itself from the public sector.

Ontario Hydro undergoes an annual rate review. Is this annual process necessary? Is the increasing amount of evidence and detail and the broadening scope of the Ontario Energy Board's interest appropriate?

After a year of preliminary steps, the environmental assessment hearing on Ontario Hydro's demand supply plan is about to commence, or at least it is likely to, some time in the spring. The hearing, by general consensus, will last at least two years. Some of our members look with great worry at the ongoing experience of the environmental assessment for timber management on crown lands in Ontario: conceived in 1986, initiated in 1987, under way in 1988 and now likely not to produce a report before 1992. In that case, the proponent is the Ministry of Natural Resources—the government of Ontario itself. Millions of dollars are being spent on consultants and lawyers' fees,

dollars that will come from the pockets of taxpayers and consumers.

The intervenor funding panel for the Environmental Assessment Board has recently released its report regarding Ontario Hydro's demand/supply hearing. Over \$1 million worth of funding was awarded. Some cost award may also follow. As the proponent, Ontario Hydro will have to bear these costs. They will be passed on through the cost of power to municipal utilities and ultimately to the consumer. Appropriate public input should improve decisions. The question is, how much, and does the end justify the means?

This hearing is examining the need and rationale for certain projects which form the early parts of Ontario Hydro's demand/supply plan for the next 25 years. Subsequently, specific site hearings will be required.

The member utilities from the Municipal Electric Association do not want to skimp on any steps necessary to ensure an adequate, sustainable development strategy for Ontario's electrical supply. As locally elected men and women, they share with the members of the Legislature and the government concern for the environmentally and economically sound future of this great province. They question the time and moneys involved in the current process. Do these expensive processes significantly improve the quality of the decisions that we are elected to make?

One thing is for sure: Decisions from this process will not be made quickly. One must remember that "no decision" is in fact a decision, possibly the worst one. Does it matter how quickly these decisions are made? That depends. It will depend on how long the current recession lasts, how quickly the economy will recover afterwards, how successful we are at economic energy conservation, how fast the population grows, how much our mix of businesses and energy uses change, how fast our current generating facilities deteriorate and, eventually, how long it takes to build appropriate, new—environmentally and economically best—generation.

Intervenor funding awards are spent largely for expert witnesses and lawyers. How much does this funding of competing lawyers and competing experts improve the result? Of equal importance, what does it do to the ability of the concerned individual to take part in the process? Surely there must be a better way.

It is therefore recommended that the Legislature and the government of Ontario should monitor the cost-effectiveness of major public hearings more closely and should take steps to reduce the costs and time delays resulting from them.

#### 1100

The issues that the Municipal Electric Association raises before you are not new. While they may be politically different, and the current climate may raise financial problems, our recommendations are matters of principle. Ontario led the world in its strategy for delivering electricity. It was one of the few jurisdictions that recognized early the importance of reliability, public control and cost.

Ontario established the concepts of public power and power at cost. Please join the commissioners and staff



e municipal electric utilities throughout the province in supporting these valued principles.

**Mrs Sullivan:** I am quite interested in your brief. I have heard many of the points made by the MEA before. I think, as you know, that the Liberal government took chances on some of these areas. To some, the new government has yet to speak. The major speaking, really, into electricity so far has been done to the questions of nuclear from the new government, and I suppose we are all interested to see what it will have to say latterly.

On the first issue, I just want to suggest to you that you may or may not have noticed that the new government has been leading the revolt against the GST, we are told—

**Mr Curling:** Revolution.

**Mrs Sullivan:** A revolution.

**Mr Stockwell:** How is it going?

**Mrs Sullivan:** We have not heard how it is going, but we understand that it is doing it.

Interjection.

**Mrs Sullivan:** That is right.

**The Chair:** Move it along a little, please, so we can get to the question.

**Mrs Sullivan:** Well, you noticed there is a revolt, but that is only the first part of the question. I want to turn to the cost-effectiveness of public hearings and also, in doing that, talk about some of the other points you have made, including cost of water rentals and so on in which the environmental and social costs are factored into the discussions. These of course have been major parts of discussions in the past. Indeed, there is some view that environmental and social costs are not adequately factored into some of the pricings.

In terms of public hearings costs, I wonder if you are aware that in addition to the awards that have been made by the panel of \$21 million for intervenor funding on the OSPA, Ontario Hydro itself has set aside \$60 million for intervenor funding. In fact it is encouraging intervenors to come forward and is looking, for example, at some of the hydro projects in the north, waiting for decisions to come out of the Ministry of the Environment for those processes to go ahead so that the intervenors can be funded.

**Mr Hueston:** Well, \$65 million was originally requested. The one-member panel recognized \$21 million of that \$65 million—

**Mrs Sullivan:** As part of the environmental assessment process.

**Mr Hueston:** Yes.

**Mrs Sullivan:** But within Ontario Hydro's budget for the EA process there is an additional \$60 million which Ontario Hydro itself is making available for intervenors.

**Mr Hueston:** I should also point out that in addition to that \$21 million, some intervenors, we being one, are putting up their own funds as well. We won intervenor funding, but it was on the basis that we cover a part of our costs with our own funding.

**Mr Wiersma:** There is a significant indirect cost involved on the part of Ontario Hydro for the commitment

of its staff and so on, which is not funded in any way. That is perhaps what is being referred to in the \$60 million of Ontario Hydro's cost, for its staff to participate in this process.

**Mrs Sullivan:** Hydro will be offering direct grants to groups as well. Certainly one of the things that the previous government had started to do and the new government is doing is reviewing the environmental assessment process to clean it up, make it faster, while still maintaining the integrity of that process. It is one of the things they have done that I concur with and speaks directly to your point.

The cost of intervenor funding is something that I think everyone in all parties sees as a very appropriate part of the public process leading to decisions. That is not really a question, but—

**The Chair:** A good throwaway.

**Mrs Sullivan:** I think every party thinks it is a valid and valuable part of the process in reaching decisions.

**Mr Hueston:** We are very concerned about the cost of power. I think most Ontarians think that power is cheap in Ontario. It is not getting to be cheap any more. I can give you an example that I picked up very recently. The average urban residential cost for power in Ontario is about seven cents a kilowatt-hour based on 1,000 kilowatt-hours per month per house. I recently was at a seminar and was told that the residential cost for power in Takoma Park, Washington is less than four cents. That is US money, but that is significantly less than Ontario. Of course, you get into the whole Tennessee Valley Authority in the United States and power is under five cents.

I think people up here tend to look at the New England Power Pool and New York City where power is 15 or 16 cents a kilowatt-hour and say Ontario is cheap. It is compared to that, but when we are competing for industry, you are not seeing industry going into New York City; you are seeing it going into Tennessee, Kentucky and places like that. Those are the places that Ontario has to compete with to get industry.

**Mr Stockwell:** Maybe mine is more of a comment as well. I think all parties would agree with the openness the public hearing brings. I think the length of time these processes take is absolutely insane. It is absolutely nuts, especially when it comes to the environmental assessment hearings for, let's talk about, the landfill sites. The last one took 11 years from start to finish.

**Mrs Sullivan:** My riding.

**Mr Stockwell:** There you go; 11 years. That is absolutely insane. Nobody can plan on an 11-year basis. I guess that is really what you are suggesting.

The question I am asking you is that the general consensus on your demand-supply plan suggests it is going to take two years. I think that is a laugh. It is going to take considerably more than two years, in my opinion.

**Mr Jennings:** If I may, it is at least two years. That is what everybody has decided to base budgets on because nobody knows how long it is going to take.



**Mr Stockwell:** They can base budgets on two years, but the fact of the matter is it is going to be more than two years and you are going to go over budget on all of them.

**The Chair:** If it is really quick, I will let Mr Sutherland have his question and then you can have yours, but we must move along.

**Mr Sutherland:** Mine was more a comment. I met with a local group last week. You talked about the long process and the costs in intervenor funding, and you talked about the other experts, but the reality of the situation is that many people out there in the public who are concerned about what is going on environmentally in these other things do not have the knowledge or background to totally comprehend everything that is being presented, particularly when they have a sense that it is only one-sided. I think the process is there to allow the public to have faith in the process, that both sides can be heard and that they can have a full comprehension of what is being proposed.

**Mr Jennings:** If I can respond to Mr Sutherland's comments from a personal standpoint which I think is shared by an awful lot of the elected commissioners in the Municipal Electric Association and the staff, it is only referred to in a very limited way in our brief but one of the issues is how those local people take part in a process that is focused largely on very expensive experts and very expensive lawyers.

I sit as an executive member of the Conservation Council of Ontario and I look at a number of our member organizations that are trying to appear there. Some of them have chosen not to ask for intervenor funding because they do not want to hire lawyers. They just want to come to make a case. But they are dealing in a very peculiar environment for that kind of input.

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**Mr B. Ward:** I have a follow-up, first of all, so I am clear that there was mention about the tax as well as everything else. Is your suggestion that we should be encouraged to continue our opposition to the GST, specific to the taxation of electricity through the GST? You are encouraging us to continue our opposition?

**Mr Jennings:** Yes.

**Mr B. Ward:** Could you speak to that?

**Mr Jennings:** Because the responsibility—

**Mr B. Ward:** My question, if I may, is following up on Mr Sutherland's comments on the public process. I think your concern is the cost of public process, the delays, the needed high-cost lawyers and experts who seem to get involved on both sides, and at times even government against government, so to speak. In your opinion, how did that system evolve from the concept of open and honest hearings where the general public is allowed to dialogue with the various departments? How did it evolve to get where we are today where it seems to be a necessity that a high-priced lawyer or a high-priced expert has to be there, otherwise things are not discussed? I was wondering if you could comment briefly on how we seemed to get in the mess we are in.

**Mr Hueston:** I got to thinking that it is kind of competition. The previous people, the nurses, commented on the fact that you had to be bigger and better—"My hospital's going to be better than yours"—and I think we fell into the same sort of situation. I will let Mr Jennings comment.

**Mr Jennings:** Let me respond to that by saying that there is no way of knowing from the outside. I think there was an intent at goodwill in trying to make sure that everybody had an unfettered chance to have his say. You are dealing in this hearing, just like the timber management, one that was referred to, in fairly sophisticated technical areas, so you try to help the people by providing them with the funding to get experts. But inevitably, because it is a process that is removed from government, it is more—allow me to express a personal opinion—an American style checks and balances approach rather than the government accepting the responsibility for its decisions. I do not think it is any one government; that has been developed—

**Mr B. Ward:** Just a natural evolution, I guess.

**Mr Jennings:** —over two dozen years that I have seen our society moving and wanting to have some kind of arm's-length, decision-making process removed from government. So you end up with a quasi-judicial type of approach. I think our members are seeing a lot of money spent and are wondering not that the issue should not be raised, but if there cannot be a better way that is less costly and less delay.

**Mr B. Ward:** Time to review the process.

**Mr Hueston:** I think the thing that concerns us—if we look at the timber management situation, at least the trees continue to grow while this ongoing hearing carries forth, whereas what we are sitting on here in energy is that progress towards the development and design of new generation plants is at a standstill. That is a significant difference.

**The Chair:** On behalf of the committee I would like to thank you for your presentation this morning.

#### CANADIAN INSTITUTE OF PUBLIC REAL ESTATE COMPANIES

**The Chair:** Our next presentation is by the Canadian Institute of Public Real Estate Companies: executive director, Ronald Daniel, accompanied by Ross Cullingworth and Peter Goring. We are trying to keep a tight schedule today, so you have half an hour.

**Mr Cullingworth:** Thank you for giving us the opportunity to come before you. I am Ross Cullingworth, president of Coscan Development Corp and president of CIPREC. Ron Daniel is the executive director of CIPREC. Peter Goring is chief financial officer of Bramalea Ltd.

CIPREC is the Canadian Institute of Public Real Estate Companies, an organization that has approximately 400 members. They are the larger developers in the country, predominantly involved in commercial, retail and industrial activity. Some members—it just so happens that we are probably the two—Bramalea and Coscan, are also fairly involved in the residential side. As an organization



have significant property holdings. The companies in the association have significant holdings in Ontario.

For the period 1984 through to 1989, inclusive, our industry was one of the very significant contributors to the growth in the province, and our industry probably represented a very significant percentage of the new jobs that were being created, because construction activity was running into very high levels.

I would like to give you just a quick overview. We have submitted a short brief. I presume you have had that and I am trying not to concentrate on that at all, but to touch on a few other things and then give you the opportunity to ask us any questions you might have.

I would like to give you what we see as an overview of our industry, our business now. On the commercial, retail and industrial side, all are in a significant oversupply situation. With the current decline in jobs that we are experiencing and the difficulties that manufacturing is having, particularly the problems it is having on the export side, exports are being hurt by the high level of the Canadian dollar, but another very significant factor that is influencing the problems on export is the cost of doing business in Ontario.

There is no impetus with this decline of activity to stimulate any new construction. These sectors of the economy, we believe, will be a negative contributor to growth in 1991.

As projects are completed—there are a number that are still going up—there will be very little new ones started to pick up the employment. We can see the example of the recent capping occurring on the Bay-Adelaide Centre.

It is our view that jobs in Ontario will continue to be lost in 1991 in our industry.

On the residential side, it is also in an oversupply position. There are a significant number of units in inventory on the condominium side. On the low-rise side, there is not what you would call a lot of standing inventory. There is definitely some. However, the resale market has a very significant oversupply and so we think that the level of construction on the residential side will also be low and therefore have the same impact on the economy as the commercial, retail and industrial.

Over the past number of years the provinces have reduced financial support and transfers to municipalities. These actions have caused a surge of new taxes on business in general and real estate in particular.

A recent article in the *Globe and Mail* made the point that municipal real estate taxes in Canada increased by 18.8% a year during 1983-89. Between 1987 and 1989 property tax increases exceeded inflation by 73%. These increases are in the traditional real estate municipal assessment base and do not include some of the additional taxes that are now being extracted, the recent new taxes such as the Ontario commercial concentration tax, the development charges tax which is significantly increasing levies across the province, and the increased land transfer costs.

It should be understood that in office and retail space, the commercial leases provide for the landlord to pass new and/or increased taxes on as additional rent to tenants. Tenants, in turn, will assess the impact of their costs on their

business and decide whether they can pass it on to their customers. The point there is just generally that it is not the organizations that pay the tax bill that bears the cost, but the end user. It is the consumer who ends up paying for these increases in taxes.

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There is a tremendous tendency for governments to like to look at the development industry, we have experienced it many times before, and say, "Let's tax that industry more." You are not going to tax the industry more to any great extent. It will get passed through to the consumer. It makes the cost of doing business that much higher and thus the increase is falling on the consumer and it is making it much more difficult for businesses to be able to operate, particularly with the impact of free trade.

In summary, we do not see really what sector will lead the economy out of the recession. Presumably it will be consumer spending. However, in our industry we still have sufficient inventory to absorb that. If the consumers do come back into the market a little stronger, even if housing starts to increase, this is not likely to translate itself into a lot of jobs.

It could be, therefore, a little more severe a recession than most people are predicting. We are having more people now suggesting that it might be a little longer recession. However, if we look at some of these things on a historical basis, we know that our industry has always been one that has helped, or tended to be one that helped to bring the economy out of a recession. We are saying this time we are not sure that that is factored into many of those forecasts correctly. The real estate industry is one of the larger employers in our economy and we respond to demand. We see very little demand for our products in 1991, particularly in light of the current oversupply.

Our recommendations to governments, and we do make these same points to the federal government—in fact we obviously add a few more things because of its influence both on the cost of the dollar and interest rates—but the government must deal with the structural problems that have been created in the economy.

The cost of doing business in Ontario is inordinately high from provincial deficits and, as I said, for that matter, deficits throughout the country, high interest rates, excessive taxation at all levels, artificial trade barriers within Canada, the cost of creating industrial facilities as compared to the cost across the border, all of which serve to inhibit productivity and job creation and obviate the benefits that we do expect to achieve over the long term with free trade.

The deficits: To deal with deficits, governments—federal, provincial and municipal—cannot increase taxation in this environment. In this environment, this will lead to a reduction in international competitiveness and probably a reduction of industrial activity and job creation. Fundamentally, our levels of taxation should be decreased to keep our industries competitive in the world market.

At the end of the day we in our industry have probably the same underlying objective that we think the government has, and that is a stable, productive economy and one that is probably providing a reasonable level of growth,



not an excessive level of growth, but something that is controlled and does not stimulate price increases.

The government must reduce spending in absolute terms and redirect spending to support economic activity, reduce spending in areas of business regulation and the bureaucracies involved, in duplication of services such as the collection of taxes. In social and cultural programs, make social programs more user-pay as a method of forcing the cost down and make social programs more targeted and less universal.

Those were just some of the general comments. If anyone has any questions at all, we would be more than happy to try to deal with them.

**Mr Curling:** We had a presentation yesterday from the Toronto Home Builders' Association and they are giving me the opposite message, or maybe I am hearing wrong. They are saying that we should stimulate the construction industry, that is what I am hearing from them; as a matter of fact, they are the ones who are building and you are selling. You are saying that the market itself is oversupplied, both the commercial and residential market now, so therefore there should be no more put on the market. Am I hearing you right?

**Mr Cullingworth:** That is correct. It is definitely oversupplied in commercial, retail and industrial. On the residential side it is oversupplied at the current market prices, but I would have to say that there is very little product. Because it cannot be produced at current land prices and current costs of production, there is very little product for the affordable level. Anything below \$140,000 is very difficult to produce in Toronto.

Now, that does not apply in other communities. If you go outside of Toronto—and I do not mean just outside of Toronto, because the Barries and the Oshawas are also influenced by the Toronto pricing—if you go to Kitchener and London, you will find there is an oversupply of housing in most ranges and they do not have the same affordability issue. But quite definitely, there is a market and there is very little product because of the increases in pricing that have occurred in the last few years in affordable housing in the greater Toronto area.

**Mr Curling:** I would be presumptuous to even ask you to comment on their presentation, although you did not hear it, because you have worked very closely with them. The overinflated price of that product—when I hear about available, I say it is overinflated, because the price of homes is going up so fast, and I am talking about residential, for instance—that sometimes they could not even catch up with the price. What they have done is take some of the facilities, the accessories out of the house. You do not get lights, you do not get a fridge, you do not get a stove and all of a sudden the prices keep going up but you are getting less.

Now, the affordability can be addressed, would you not say? Basically, there is a price in there somewhere. I am talking about the builders and the real estate people who are saying, "A willing buyer and a willing seller," that kind of game; people were then confident of getting homes. Would you then say how far down you feel the prices will

drop with this oversupply of unaffordable houses that will come down almost to affordable?

**Mr Cullingworth:** Peter and I might have different answers to that. Peter, do you want to try that?

**Mr Goring:** That is what democracy is all about. You can start.

**Mr Cullingworth:** The decline in prices, I believe, is probably much greater than reflected by the normal resale information that you see. We know in many cases builders have a tremendous tendency not to reduce their prices and that is why there is very little selling. They have a tremendous tendency not to reduce their prices for a number of very natural reasons. They might have a lot of people already in a community who have bought at a different price and they do not want to be the ones who significantly reduce the price to sell. However, there is no action occurring.

In the resale market there is some action occurring. We have seen many examples of prices today that sell for anywhere from 30% to 40% less than the price they sold for a year and a half or two years ago, and you have to go back close to two years to get to the peak.

On the land side, I have seen many examples of land prices, and I am talking now about the serviced lot. Because of the leverage involved, this would be a higher number than if you came to raw land. On the land side we have seen declines of similar amounts, 30% to 40%.

I think that is at the high end of the scale. As you come down the scale, so that your pricing is coming down into the lower price—I am talking there about some of these single-family houses that were moving up into the \$500,000 to \$600,000 range—there has been a very significant shift down in those and there is virtually no market for them. In the lower range, if you get down into the \$200,000 product, we probably have seen something in the order of a 20% to 25% decline in values at this point in time.

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**Mr Curling:** You do not want to comment?

**Mr Goring:** No, I just concur with that. It is like trying to sell fridges at the North Pole. The era of consumer orgies is gone and nobody wants those big houses. You obviously have to bring them down a lot more, because people just do not want them. The houses that are more appropriate to today's taste, I think 20%, 25% is the right number.

**Mr Cullingworth:** But again, I think there is very little product at all in the GTA that falls in at a \$140,000 price. If one converts that into the level of income a family must have to support buying, we have removed a very significant proportion of the people who did not have houses, we have removed them from the capability of coming into the housing market.

**Mr Goring:** And to some extent, the advent of those houses is going to be delayed because of the lags in the zoning process. If you have a piece of land that you were thinking of putting into 50- or 60-foot lots, and you went up to where the market was and decided you had better



t changing them in mid-process back to 28- and 32-month lots to put more affordable housing on them, it is going to take 18 to 24 months to get that new product on the market. I think that is why we have seen a bit of a gap. The product people want to buy cannot be delivered and will not be able to be delivered for another six to 12 months, except for stuff that just happened to be there.

**Mr Phillips:** Mr Curling asked part of my question. I think a lot of committee members, myself included, have been quite taken with the fact that the professional forecasters, the banks, the Conference Board of Canada, Inmetrica—I see today that the University of Toronto has completed a study—all are predicting that we are only months away from coming out of the recession. Mid- to late 1991 I think is what virtually every forecaster has predicted for us.

You said today that you may see things slightly differently from your perspective. I wonder if I might ask on what you base that conclusion. I also think you may be closer than many of us are to measuring a kind of belief that some people have that some industry is leaving Ontario. I wonder if you might just comment on the basis on which you have reached your conclusion that the recession may be a little bit longer than the professionals', not that you are not a professional forecaster—the other forecasters'.

**Mr Cullingworth:** I am not a professional forecaster. I said it could be that it will be a little longer recession than a lot of the forecasters are predicting. It seems to me that very often the housing industry has been one of the industries that tended to be the leader of the economy out of a recession. The economy turns a little, house building moves up and that creates a lot of jobs. We are a very labour-intensive industry. I think if what many of the forecasters are doing is looking at a lot of the historic numbers, then they might not be factoring in the full impact of what is going to happen in the housing industry.

However, having said that, I do know that most of the forecasters are forecasting lower housing starts in Ontario in 1991 than we had in 1990. So from that perspective, it should be in there. I guess we are in an industry right now, particularly centred in Toronto, where there are an incredible number of negatives. So we might be a little more pessimistic than many people because we have both issues, declining business, declining activity, seeing that last for a period of time, and declining values wrung into the business at the same time. We do not have many up days when we go into the office and maybe that is influencing us.

**Mr Phillips:** I think that is the same thing we feel here. The forecasters, who seem to step back from it somehow or other and forecast the weather, say the storm is going to end and those of us who are in the middle of the storm cannot see the end of the clouds.

**Mr Daniel:** Maybe I could add that in our brief we indicated there may well be various sectors of the economy that will recover, but it is not in the cards for real estate to recover in 1991 and we do not see major recovery until 1993. There will be a continuing decline in Ontario of

new investment in the commercial construction field through 1991 and again in 1992.

**Mr Phillips:** Where is that?

**Mr Daniel:** It is in our brief, but it is Data Com, which specializes in construction forecasts. That is the problem. In other recessions, as Ross Cullingworth has pointed out, the construction of commercial space and residential housing has led the various economies across the country out of the recession. We do not believe it is going to happen this time.

**Mrs Sullivan:** I am also interested in the predictions that you make, and particularly that oversupply at this time will mean that housing and other construction starts really will not be a trigger for reflation. I wonder if we are moving into a time when indeed there ought to be less emphasis placed on housing and other construction starts as a key economic indicator. So much of our gross domestic product in recent years has been based on a measure in terms of housing starts, and with demographic change I wonder if in fact we are not looking at a permanent restructuring in the real estate industry in all of the four sectors.

**Mr Cullingworth:** It has been predicted, actually, for the last 10 years that demographics will reduce the activity in the industry and it has not occurred. One of the main reasons for it is that we are first of all a shifting population. The Toronto area is a very attractive area, has been an attractive area. We are concerned about its ongoing attractiveness to business and industry and we have a significant change in the level of immigration into the country, a high proportion of which moves into the Toronto area.

You go back five or six years and we were talking about immigration of 70,000 and 80,000 people a year. Now we are up to 200,000, moving to 250,000. If you factor that in, immigration is a direct demand for housing or accommodation. It does not matter whether it is rental or ownership, but it is housing. If you factor that in, I think you will find that as long as Ontario continues to grow and create jobs, it will attract those people into the community and the demand will probably stay very close to the 200,000 level for the next number of years in Canada.

Peter, did you want to touch on the—

**Mr Goring:** I want to make a comment on the industry. To me, there is one demographic change in here. As we went through a period of prosperity the average family size shrank dramatically, which increased the number of units. I do not know how many of your children are coming home.

**Mrs Sullivan:** They all are.

**Mr Goring:** We will see that change, I think, over the next four or five years, but I agree with Ross that it is the immigration that has been driving this market. I think we are having a serious problem with industry in this province. I do not know if that is news to anybody on this committee, because I think you are all aware of it.

As you know, our home base is Bramalea. About five years ago it looked like they were not going to get, I cannot even remember what it was, an American Motors plant, I think, originally. We actually said we would make



the big sacrifice and, in quotation marks, "give away" some land in our industrial park so American Motors could build a plant.

But that will be okay because we are going to have all these suppliers who will want to be really close to the plant. We understand they are having this new just-in-time inventory and everyone will want to be on their doorstep so when they want a widget in five hours they can walk across the street with it.

When we went out and canvassed the industry we tried to bring those people here. This was as long as five years ago. We found (a) how far a truck could drive in 24 hours and (b) that even then the tax burden and the costs, as opposed to being somewhere in Kentucky, were just totally uncompetitive, even including driving time. Although we did not gain anything, we are now actually at the point where we are seeing plants move and those suppliers are going south of the border.

Also the other impact: Anyone who lives in the Niagara Peninsula feels the loss of shoppers and eventually jobs across the border. Hopefully, as the federal government moves to start collecting the GST, some of that will disappear, but for those of you who are in the Niagara Peninsula and other border points especially, I think it is a large problem which will affect seriously the retailing side of industry in Ontario.

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**Mr Sterling:** I have been concerned about the non-productive part of the rise of costs of real estate in Ontario over the past five years. I guess I am concerned about our planning process and whether or not it is serving the function it was intended to serve. I think most politicians agree with the function, regardless of party, whatever, but it seems to have created a monopolistic system, which in my view has not led to extraordinary good planning overall. I am not sure the price our people have paid is worth the overall planning system. That might sound strange from somebody who drafted the Niagara Escarpment plan, but notwithstanding that, I am concerned about the overall impact of our planning system.

In a time of recession and when real estate properties have been devalued and prices are softer, I imagine the pressure on municipal governments for new development is much less. It probably is the best time to alter our planning system, because people have more time to think about what our overall goals are without the immediate pressures on us. Have you any comments on that end of it?

**Mr Cullingworth:** You would have no difficulty getting a few comments from us on the complication, the difficulty in the system. There are some things that the system does that people probably do not quite realize. It clearly provides everyone the opportunity to object and delay activity, but there are other side-effects.

The system is so complicated and so long, and the municipalities are put into the position of constraining themselves, only allowing a certain amount of land to be developed in a year, because of a number of elements.

It could be the fact that they knew they were only going to have two schools or were only going to process

the land that accommodates two schools. They have all their own departments to worry about. They have the engineering departments, their planning departments, the plumbing departments, their whole infrastructure, the garbage departments. They do not want to throw them all out of whack in terms of a normal process. They do not want to find that one year they processed 2,000 acres, to find out that the next year they really only are going to process 300 or 400 acres, because then they have all sorts of people on staff who they are not even in theory extracting, because they do take a lot of the costs for those out of levies.

What happens then is they have a tendency to have a relatively normal position in terms of what they process but the market does not work that way. Whatever it is that they are moving through the system, it takes four to five years to move through the system. Automatically, if there is a spurt in demand, which we had starting in 1985, but much higher in 1986 and 1987, had a huge spurt in demand, maybe a lot of it motivated by speculation, that is definitely a possibility, but it pushed up the demand for land processing and it was not changed in terms of its pace.

There became an absolute scarcity of land currently available for building. In fact we all know that many builders were selling product on land that they did not even have approved. They were selling houses, saying, "We are going to deliver it in a year and a half out ahead of ourselves." That was really dealing with next year's land any event. That put a force into the system that drove prices up.

I know there are a lot of people who would like to take a different position, but I am a very strong believer that the house-pricing increases in Toronto were motivated 100 per cent by a scarcity of land being available for the market to deal with. Therefore the system does have its rigid and negative impacts on the buyer.

**Mr Sterling:** I would just like a short answer because we have to move on. Can you tell me if there have been any studies done by your group on comparing—I think it is very important that we compare—systems in New York or Michigan, because they are becoming more and more our competitors as we move towards a global economy on this matter. Have there been any studies done on comparison of delivering costs of developed and undeveloped land in both those, comparing their jurisdiction to our jurisdiction and their timing process to our timing process and their safeguards, etc.

**Mr Cullingworth:** We have not undertaken any specific studies of that nature. I am not sure whether there have been any.

#### CANADIAN FEDERATION OF LABOUR

**The Chair:** Our next presentation is by the Canadian Federation of Labour: Jim McCambly, president; Robert Begg, president of Working Ventures Canadian Fund; Robert Conrad, secretary-treasurer of the Ontario Provincial Council of Labour.

While we are waiting for them to set up, some of the questions have started to range over a wide variety of topics that do not seem to deal directly with pre-budgetary



commendations. We have a very tight timetable for day. We are sitting practically the entire day, and if we could restrict our questions solely to that area of expertise and one question per person very quickly, we will be able to get through today's agenda. But we do have a very full agenda with the Treasurer coming in the next 45 minutes so.

**Mr McCambly:** It looks like we have pretty much got the mechanism in order, so I would try to make haste in order to utilize your time to the best advantage. I welcome the opportunity for the chance to make this presentation. I want to try to go through, relatively quickly, a presentation and open the opportunity for some questions and answers, and maybe with some presentation, I might discipline myself.

Ron Begg, on my left, is the president of Working Ventures Canadian Fund, and Reg Conrad, on my right, is the secretary-treasurer of the Canadian Federation of Labour's council for the province of Ontario.

The Working Ventures Canadian Fund is sponsored by the Canadian Federation of Labour, and I guess it is the first national venture capital fund sponsored by labour. It is national in scope for economies of scale, but it is committed to reinvestment in each province.

Working Ventures was established under federal legislation. It is up and running. We are selling shares. We are ready and seeking investment opportunities. We have a federal 20% tax credit for any investor up to \$3,500 anywhere in Canada. We have a \$15-million grant that is payable to the fund over a seven-year period. We are just at the end of the second year of that now and we have about five years to go. It is RRSP eligible, but I do not want to exaggerate that. What that essentially means is that some people who are now committing their RRSP money to guaranteed investment, if they have a pension fund, if they have a sound RRSP plan, may take part of that and put it into equity capital that does not currently exist.

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Of course, what we are here for today is to request your support to have Ontario consider participating with a matching tax credit. Just at a glance you can see here that the structure of the fund is very much like a mutual fund. We are looking to create the opportunity for thousands of individual people, particularly working class people, to participate in the fund, to pool their activity, energies and money to be managed professionally into promising growth businesses.

In order to emphasize that we are gearing this whole thing to average people, average Canadians, and not millionaires or corporate investors such as has previously been the case, our objectives are to make the economy grow, to have people working to make the economy grow, to create jobs and strengthen the economy by people participating in the risks and rewards, and really pride, I think, is also an important issue, the average person participating in his national and provincial economy.

A bit of an introduction of the management team that we have hired, and these people have been selected on a national scope from the best we could find in Canada: On

my left is President Begg, who has lengthy experience as an entrepreneur and a manager of business and is a very energetic, dedicated leader of the fund.

Jim Hall, the VP of investment, has just been cleared by Ontario and every other securities commission in Canada to enable us as an investment advisor to be able to make investments in small and medium business. He has tremendous credentials, has managed up to \$400 million of funds in his track record.

Peter Pressey, a chartered accountant, is VP of administration and a computer expert and a person who we hired from a very large Toronto business and are fortunate to have.

Julie Makepeace was a marketing manager for one of the chartered banks and is particularly familiar with things such as RRSPs and different instruments that were similar to our fund.

We have a board of directors which is worth mentioning; many you would recognize. In addition to President Begg, Geoff Styles is a recently retired vice-chairman of a national chartered bank. Pierre Lortie was with Bombardier Financial and was previously chairman of the Montreal Stock Exchange. George Fells is sometimes called the dean of venture capital. Wendy Dobson, of course of the University of Toronto and a local person most of you would know. Lloyd Barber is from the University of Regina. There are directors who are appointed from the unions, but it is only a majority of one. You can see that the power and influence of these people is very welcome and very important to the direction of our fund.

The operating principles are really important for you to understand. We want to operate this fund on sound management principles. We have identified that it is professionally managed. It is not managed by the unions; it is managed by the best professionals we can find. We operate with strict fiduciary responsibility to shareholders, and of course one of our main objectives is job creation. One of the ways we would look to do that is by going out and backing potentially successful enterprises, enterprises that have the potential for growth, have the potential for exports, have commitment to excellent quality in competitive Canadian products, both for the domestic market and for international markets, whether it be manufactured products or whether it be services.

The matter of productivity is something that is very important, I think, a contribution that we can make in trying to develop greater positive labour-management co-operation. The fund and others see us as a more patient long-term investor than other types of capital funds that are looking for private investments to go public very quickly, forcing them into difficult situations. We see it basically as a very big, giant step in the free enterprise system for labour getting involved and working with and helping businesses to succeed.

The diversification of the fund is important. It is across all provincial boundaries, although we will get into the individual investment in the province. It is across all industrial sectors. It is able to invest in any stage or type of investment, whether it be expansion of existing businesses, turnaround, startup, restructuring. Of course we



want to help workers or businesses in employee share ownerships. Where that occurs, we can assist them, advising and getting involved in that way.

We are more interested in incremental tech instead of just high tech. Naturally that is a more risky type of investment. We are not so keen at the moment, at least, on getting into high risks. We are more prepared to take lower rewards and a little lower risk, looking for higher labour content, and certainly to be able to put value added to both the investees and the products that are created rather than exploiting resources.

The commitment to participating provinces is really crucial. We have circulated material to you that includes the prospectus. I have taken an excerpt from the material that was given to the Premier and ministers which reflects the commitment we give to any participating provinces. This is something you can cut your wrist and sign in blood if you need to, because it is our commitment to our membership, to everyone, that when a province gets involved, we want to see things happen in the province so that people can have a share in and participate in. It is not just the 80%. It could be 100% or 120%, because the province also has access to any other uncommitted money in the fund for investment in the province.

First, our prime objective is to invest in businesses, as we talked about before, and until such investments are available we would put them in government paper. It might be Ontario Hydro. It might be other types of paper that would be approved in the province of Ontario. The national office is in Ontario, right here in Toronto. We can give quarterly—or monthly, if necessary—detailed financial reporting to the province. We want to go with strategic sector advice that the government is interested in, and to try to tie to that also in terms of the areas. Ontario is a lot more than Toronto or Hamilton. We are also very interested in the Sudburies, Sault Ste Maries, Sarnias or whatever, and Renfrew or other parts of the province where potential investment exists.

The impact—for your benefit very important—is that for every 20 cents of provincial support, we will have \$1 to invest in small and medium business. Carrying that forward, for every \$2 million of provincial tax credit, we will have \$10 million to invest.

If you extrapolate that, with a \$10-million investment, here are just some examples. The material we have on this really comes from Working Ventures here in Toronto, which is the Canadian expert, if you like, on this type of investment. I just took a couple of examples. That kind of investment in three years, they estimate conservatively, would create or promote or support 1,500 jobs. By year five, it would be 2,800. Important for you, as a finance committee, is the recommendation or decision on behalf of the taxpayer, and that is the return in revenue, and this is only taking personal revenue, not from a business or corporate return. By year three, the year should produce \$1.6 million in tax revenue, and by year five, \$3.1 million. So the compounding effect of the incentive is huge for the benefit of the province and the taxpayer base.

There are details in our submission on exports and research and development, which are all available to you if

you wish. Again it is the matching credit and the involvement of the province that we are really looking for, and your support, your recommendation and consideration which I hope are some of the more important issues that you will be dealing with, your committee. You get thousands of Ontario people involved in looking to the future and supporting the investment and a bright future in Ontario, I guess the indication is now there is no better time to have some equity money available to support some businesses, some of which are very desperate for equity capital at the moment.

To close, it essentially is a matter of government leadership that will enable us to promote what we see as a dynamic co-operation between business and labour to really make some things happen and help average people to make things happen so that they do not just have to wait for large investors to make decisions within the economy.

I would be happy to try to respond to any questions Mr Chairman, that you and the committee might have, or the president of Working Ventures, or Mr Conrad. Thank you.

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**Mr Hansen:** Maybe I missed the slide, but if this is proposed and comes in, would the small business be applying to your outfit or would it be applying to the government and wind up working through your funds?

**Mr McCambly:** All applications for any sort of capital go through the machinery of the fund. Due diligence needs to be done, searching of whether they have the management, whether they have a market, whether they have a product. All that is done by President Begg and the vice-president of investment, Jim Hall. He is responsible for that. Only after they are satisfied that there is a potential for investment would they come back to a committee of the board or the board itself to say, "We are recommending investment in this enterprise." So it is run as an investment business in that respect.

If the province or the government has a desire to support certain industries or certain areas or something, we would ask you to take a look in those areas to see what might be done that would coincide with the objectives of the government of the day, but it would definitely be the initial responsibility is with the directors, with the company, to make sure those investments are prudent.

**Mr Phillips:** I am intrigued by the idea. I will make a prediction that, in some form or other, something like this will be considered in the very near term. My own judgment is Quebec kind of figured out a lot of stuff and this is one of them, that we are going to be looking at creative ways to foster new forms of partnerships. That will be kind of the jargon of the future, and what you are seeing in Algoma right now, in some form or another, will drive it to the suspect.

**The Chair:** Are you going to patent the phrase?

**Mr Phillips:** What is that?

**The Chair:** "Fostering partnership."

**Mr Phillips:** That is a cliché already, and it will be a cornerstone of the future—that is another jargon—all



which leads me to say that this group has been working on it for some time. I think the OFL has had some difficulty with it, and I think it is split on it. I predict that in some form or another that will change, because if we want to look at the future, we will need some repartnership. So I guess I just say to the government that I would hope it could kind of look at this as a—if it is not the perfect model, it is something very close to this, and as I said, the goma thing may drive at least the thinking around new repartnership. President Begg, I think, was the entrepreneur the year one year in Canada, developing a world product out of nothing, which sells now around the world. I think you do have a good staff on hand there that has kind of bowed the way a little bit.

I am repeating myself. I do not know whether this is the perfect model, but I would urge the new government to take a look at this and see if we cannot drive it forward in some form to help with that.

**Mr Sterling:** I just want to ask a couple of specific questions. Does the federal government presently give a grant for this kind of thing? If you got the provincial government to agree, you would be getting 40%, or the investor would be getting 40%.

**Mr McCambly:** Yes.

**Mr Sterling:** Who gets the 40%, the investor?

**Mr McCambly:** The investor.

**Mr Sterling:** So he gets 40% kickback.

**Mr McCambly:** Yes, 40% tax credit. It is exactly the same as what is provided now for the solidarity fund in Quebec and it is exactly the same as the province of British Columbia is offering—although it has no takers for what it is proposing in British Columbia, and it is no wonder, but I will not get into that—and it is exactly the same as what we currently have in the province of Saskatchewan. I might say it is going great. I tell you, things are happening there and we are very pleased with the response. Mind you, they acted and created retroactive legislation.

**Mr Sterling:** We had in this province, brought in two governments ago, the small business development corporations, which I believe provided a 30% kickback for the shareholders. But there were limitations on the type of investment.

**Mr McCambly:** Yes.

**Mr Sterling:** How does this differ from that?

**Mr McCambly:** The big difference with this fund and most other types of proposals is that there is a limit to the amount of tax credit you can get. The maximum investment is \$3,500 a year or less. But the average is more like \$500 to \$800. We are talking about average people here. Of all the people who invest in anything, only 17% or 18% invest in any kind of equity. So what we are starting from is, the first thing that anybody who is going to invest says, "What's the guarantee?" If you are going to invest in this kind of thing, there is not a guarantee. What we are talking about is getting people involved in making the economy work, having a piece of the action, seeing something happen.

I used to rent a cottage and then I bought it. When I rented it, I only cut the grass. Now I never quit working. I work on it continually. I sympathize and I am not in any way critical of some unions which have the notion that this is a bit of a conflict of interest. We have soul-searched on this. We do not think so. We think it is time for labour to move in a new direction, to be a new player in the economy, not to control the economy, but to really help to make things happen.

**Mr Sterling:** Could I ask a few more questions on specific details? I am always interested in having people invest. This would be open to anybody in the public?

**Mr McCambly:** Everybody.

**Mr Sterling:** Everybody in the public?

**Mr McCambly:** Yes.

**Mr Sterling:** What would control the administration costs of the plan? I am always concerned. I think that with SBDCs we had a number of people who set the SBDCs up, but basically the 30% became an administration cost, which was extremely high for what they were really doing. What guarantees are there to the government that you are really not creating—excuse me for being a bit probing, but I would be concerned if that 40% all went down to pay highly paid executives' salaries.

**Mr McCambly:** I can tell you, we are just as concerned as you are. I will let President Begg respond to that because he is the person who has to answer to the board of directors to keep those costs in line on behalf of the shareholders.

**Mr Begg:** I think the model that Working Ventures is pursuing is that we are very much like an equity mutual fund and the cost of administering that fund will be similar. Unlike the SBDC, which involved a relatively small number of relatively high-network individuals with larger investments, this is directed like an equity mutual fund to a rather large number of discrete investors, particularly average wage earners.

We have gone to market, unlike the SBDCs, under the full prospectus route. We have received our final receipt on our prospectus from the Ontario Securities Commission and securities commissions across the country, and one of the elements discussed in the prospectus, of course, is the administration costs of the fund. In the prospectus, there is the commitment that administration expenses will not exceed 5% of the fund. As a practical matter, our operating expenses are substantially lower than that to date and forecast for the next year. One of the reasons, of course, that this is possible during the startup phase is that we are enjoying the federal grant which underwrites the startup costs, so the individual average wage earner who is investing in the fund is not going to see heavy administration expenses.

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**Mr Sterling:** One last question. Would investment be based on the fact that it was a union-run shop?

**Mr McCambly:** No. I think that deserves an answer from me because it is a question that is always asked and is a good question. We are not limiting or directing this to

unionized firms. We are sure going to look at requests from unionized firms and we do not want to invest in firms that are anti-union or that are not interested in good relationships. We are talking about starting up businesses and so on that have never heard of a union and a lot of times that is not necessarily unionized.

**The Chair:** I am going to interject here at this point. We have the Treasurer coming in approximately 20 minutes, during which time we have to have lunch. Now I have three more people who would like to ask questions.

**Mr Stockwell:** I am fine, I will not ask a question.

**Mr Hansen:** I have a question. If we are talking Algonoma, that is \$800 million. That is the top, but we are getting down to, what level would you be investing in a business?

**Mr McCambly:** A quick answer.

**Mr Hansen:** If a person needed \$10,000 to get a business going, or \$50,000, or \$100,000, as we know here in Canada now that at least 95% of the people are employed in small business, is this the area that you are looking at, small business, or are you looking at large business?

**Mr McCambly:** We have sort of indicated, at least for the start, although we have not started that investment mode, but about \$100,000 initial would be about—you would not go lower than that, for sure. But our limits are set under the regulations that we established federally and those are, 500 employees or less, \$10 million net or less, \$35 million gross or less, so that gives us a pretty large size.

Let me tell you that one of the business directors said: "One of the first things we've got to do is raise that limit. We've got to be able to back bigger enterprises." That is now the rule. I just tell you that.

**Mr Hansen:** Okay, good.

**Mr Curling:** I am going to make a comment more than a question. I know that you are trying to attract ordinary people to invest in their own province and all that and I am going to just make a comment. Maybe at the first blush I would see the aspect of employment equity. I would like to see some visible minorities and see a

woman. At a glance at your board I saw one Wendy there. That is some effort to be made because people, when they invest, want to feel a part of it, that they see people reflecting the kind of society that they are in. That is just my comment. Maybe you have attended to that, but I think it is a very serious matter that should be addressed.

**Mr Begg:** To comment on that, I spend half my life these days dealing with the investment community and the other half out dealing in the union halls with, you know, average wage earners. The kind of dialogue that this is stimulating and the kind of participation that we are getting by people right across the country is really exciting.

The investment community is coming to understand that unions are interested in increasing productivity and building stronger businesses and working people out in the union halls are taking a look at the effects of investment in productive businesses and the need to participate in this increase their stake in the free enterprise system. It is a very exciting thing, quite apart from the merits of the project in terms of employment creation and building strong companies.

**Mr Stockwell:** Sounds real exciting. I am looking for some cheap money.

**Mr Begg:** Thank you. Here is my card.

**Mr McCambly:** I will just try to wrap it, to say thank you. There are a number of other provinces that are not looking actively at something similar to what you are doing, similar to what Saskatchewan is doing. Of course, I live in Ontario, but Ontario is a leader and I think your government has an opportunity to do something here that is really going to have a major, lasting effect. We are talking about Canadians who are not going to leave Canada. The money is not leaving Canada; the money is not leaving this province. We would really encourage and request your support in this endeavour that we think is big for the future.

**The Chair:** Thank you for your presentation.

At this point I would ask the clerk to bring in order for lunch. I will recess the meeting until the minister gets here. He will be about 10 minutes late, so it will be about 12:40.

The committee recessed at 1214.



## AFTERNOON SITTING

The committee resumed at 1234.

## TREASURER OF ONTARIO

**The Chair:** I would like to reconvene the hearings for this afternoon. We have before us again the Treasurer of Ontario, the Honourable Floyd Laughren. I would like to turn it over to the Treasurer.

**Hon Mr Laughren:** Thank you, Mr Chairman and members of the committee. I am pleased to be here, I think, so far. As you know, Ontario Finances came out yesterday and I do not think there were too many surprises for people who are observers of the fiscal scene in Ontario. As the Finances will show—and I think all members have copies of it—we still think we are going to be able, despite dropping revenues and increasing expenditures, to maintain our deficit level at about \$2.5 billion for this fiscal year.

It is not magic; it is a case of having some revenues that we did not really think we were going to get because of the settlement of Ontario taxes collected by the federal government basically for 1989 that are now coming in. We are substantially higher, almost \$1 billion higher, than we thought, so that has allowed us to stay within the deficit number of \$2.5 billion. We are pleased that the numbers have shaken down that way.

At the same time, we are not kidding ourselves that we had much to do with that. But at the same time we are concerned about the year coming up, about what level revenues will be at. Of course that is not, I do not think, the discussion for today, so I really should not get into it, I suppose. But in terms of the third-quarter finances, you can see the numbers that are quite clearly outlined. In revenues, the big numbers that have affected us are, the retail sales tax came down \$672 million from the budget plan back in the spring; the corporation tax being down \$775 million; gasoline tax \$102 million, and land transfer tax \$240 million. Compensating for that was the increased personal income tax, which I talked about, which is up \$937 million. That still means that our revenues are down \$883 million from what was budgeted in the budget plan.

On expenditures, you can see it is not complicated either: the Ministry of Community and Social Services up \$554 million. That is quite simply the dramatic increase in welfare case loads. The other is the Ministry of Health, the open-ended programs in Health such as access to the health care system and the Ontario drug benefit plan being up \$136 million. The contingency fund was \$389 million, which was used to transfer to various ministries, and then of course the UTDC guarantee, \$400 million. When you take into consideration all of those changes, you end up with the \$2.5-billion deficit for 1990-91.

We are now in, of course, the final quarter, January, February and March, and we are expecting the recession to continue this quarter. Most people still seem to think that the recession will turn around in the latter part of calendar 1991 but that when we come out of the recession it will not be a big rebound, it will be a flatter rebound than it was in 1982-83. So that it is going to be perhaps at a plateau

that will not be as high as the plateau from which we found ourselves after 1982-83. We are somewhat concerned about that, but at the same time we are doing what we can.

I think that, looking back a couple of months, I am really pleased now that we went ahead with the capital works project, the \$700-million program, because I think at least it was some kind of response to the recession and I think it was the right kind of response. It did not build in expensive programs that have annualized costs for many years. It was a case of doing some rebuilding of our infrastructure that needed to be done anyway. At some point those dollars would have to be spent and it is probably cheaper to do them now than later; also, of course, the creation of about 14,000 person-year jobs. It will be more than 14,000, because a lot of the jobs will not last a year.

## 1240

There was a story in the press this morning, along with a great picture, which indicated that the capital works program was tied up in red tape. I have never complained about media coverage, because I have been blessed that way, but it really was not a proper reflection of what I was at least trying to say. What I was trying to say was that when we announced the \$700-million program we said that, of the \$700 million, we were going to put it in place as quickly as we could because we were into the recession already but that it takes time to consult with our partners out there at the local level, whether it is municipalities or school boards or even line ministries across the province and that as soon as we could get the jobs going, they would be going and they would be paid for.

Once you even assign a job, and you have heard of some of them already being announced, as soon as that is announced, then you have to go through the process of getting people on the job and then there is the process of paying for them and so forth, so there is always a lag when you are launching a program like this. To my knowledge, it is not bogged down in any kind of red tape. It is just a normal process of getting jobs started, and then as the bills come in, you pay them. I think it is not a case that it is bogged down. There is absolutely no attempt to slow down the process of those jobs. We want them out there as quickly as we can and we want most of the jobs to be completed by the end of 1991, because we believe we are coming out of the recession and that this was supposed to be a capital works project that would help us cope with the recession basically in 1991. So far, I think we are doing all right with it.

We have invited the federal government to come on board and participate, but so far it has refused to do it. We had a meeting this Monday past with the other finance ministers across Canada and with Mr Wilson. Mr Wilson is preoccupied with high interest rates and inflation. I tried to impress upon him the fact that in December, the last month I saw the figures, Ontario had a consumer price increase of 4.4%. I hardly think that is worthy of a single-minded monetary policy based on anti-inflation and



that it is time, since he is in a war mood anyway, to swivel his guns on the problem of the recession and away from inflation. But he is determined to continue to keep interest rates up there at what I think is an unreasonably high level and talk about the problems with inflation in the economy rather than the problems of the recession. That is not helping us in our struggle in Ontario, but I do not know what else we can do to convince Mr Wilson that we have a problem. It is moving into the other provinces as well, although Ontario's numbers are more serious than those of the other provinces.

I know you did not come to hear me speak for an hour, Mr Chair. If I could leave with those few introductory remarks, I have to leave at 1:30, but I would be pleased to try to answer any questions you have, and there are people here from Treasury who will help me.

**Mr Phillips:** I appreciate the Treasurer's being here and I would not mind at some stage just if we could look at next year too, but maybe it is impossible. I guess two or three things. One is, I am quite curious about the \$1-billion windfall. You may recall a little exchange you and I had in the House where you said I was too partisan by suggesting that there may be something coming.

**Hon Mr Laughren:** I do not remember that.

**Mr Phillips:** It is what it says here. I said, "I will say that a little side bet might be the previous Treasurer's estimate of revenue for the fiscal year may be closer than the current Treasurer's." You said, "Oh, you're so partisan."

**Hon Mr Laughren:** Okay. Now I remember.

**Mr Phillips:** It does have some impact in terms of thinking ahead, because I know that when you made your statement in early October about the deficit, at the same time I think the federal government was recording, I think, about a 24% increase in personal income tax revenues. I am curious about when we, the provincial government, would have found out about the coming windfall, because I gather we had a similar windfall the previous year.

**Hon Mr Laughren:** Surprisingly similar numbers too, I believe.

**Mr Phillips:** It just seems unusual that the federal government was reporting this for the period April to September, and the lines of communication were not, I gather, as swift as they might be, and that is the base on which I was saying to you in the House that I thought the revenues were going to be higher.

Another part of the question is, we now have the third quarter in and I would not mind some feeling from you about the fourth quarter. Are we likely to see these numbers stay the same? I am thinking about revenue and expenses. I know how tough that is, but if revenues come in higher, would we expect therefore the deficit to be lower or the spending to go up to keep to the \$2.5 billion?

The last one is, I know that you were remarking that the Treasurer last year used the windfall to prepay some expenses. The good thing about next year is that we will have \$600 million or \$700 million worth of expenses—UTDC and whatever you put in for SkyDome. I know you do not want to say what it is, but whatever is in there are

kind of one-time expenses this year that we will not incur next year.

Again, if you are looking to this committee to give you some advice on the budget, I just want to make sure of those things. One is when we found out about the billion-dollar windfall; as I say, when the feds were reporting earlier. The second one is, I guess the answer is this is your best cut of what we will get for the fourth quarter, but next year it seemed to me it was another little bit of windfall that came even later than this point in time. The last one is, just, have we prepaid—you do not have to give the exact number—somewhere around \$500 or \$600 million of expenses in this year's budget that will be of a non-recurring nature?

**Hon Mr Laughren:** You mentioned the UTDC. That is the only one I am aware of.

**Mr Phillips:** The SkyDome—I am sorry. I know you do not want to give that number, but in your previous answer you said you provided in the contingency plan.

**Hon Mr Laughren:** That is correct. That has not been paid yet.

**Mr Phillips:** But there is money somewhere.

**Hon Mr Laughren:** It is built in there. The second point I would caution you on is when it comes to preflows. The preflows that come into this fiscal year, 1991, are what I would call—this probably is not a technically correct way of saying it, but almost a false \$1-billion revenue base, which means that next year we are starting off \$1 billion less in natural revenue base than we would otherwise, because 1991 was inflated by \$1 billion. I do not see this in a critical way, just that putting that \$1 billion in 1991 meant that there was a higher base in 1991, so in 1991-92, we do not have that billion, almost a billion, that was there from the preflow in personal income tax revenues from the federal government. This year, if we had kept this billion dollars—\$922 million, is it?

**Mr Phillips:** Thirty-seven.

**Hon Mr Laughren:** If we had kept the \$937 million and did not build it into this year's numbers, I suppose you could argue we could have a deficit of \$3.5 million and preflow it into next year, but I do not think that makes much sense. Not only that, the auditor already is a little bit testy with Treasury for doing it last year, so I would keep that in mind when you are thinking of the base of revenues this year compared to the base of revenue next year.

**Mr Phillips:** I was wondering when we found out about the billion dollars.

**Hon Mr Laughren:** Yes, I was going to get to that. I am going to ask Tony Salerno to help me with that because I quite honestly do not know. You had better take a seat because the mike will pick you up. This is Tony Salerno.

**Mr Salerno:** The federal government started giving an indication that the transfers to the province would be revised in November, as an early indication. The revision is a composition of prior-year assessments and revision of the current year's collections.



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**Hon Mr Laughren:** I think you ended too abruptly for Gerry to cope with.

**The Chair:** That is the shortest answer we have received in this committee hearing in two weeks.

**Mr Phillips:** In terms of the final quarter, I am just trying to—because I think last year there was kind of a series of windfalls. Are the windfalls over now?

**Mr Salerno:** What we have done in our estimation at you see in the third-quarter Ontario Finances is try to anticipate any further revisions. We will not know the actual number to the dollar until March, frankly. What we have done is try to anticipate what that final number will be, and we feel that is the best number. We do not anticipate any significant change from that number that we are reporting in the third quarter.

**Hon Mr Laughren:** Or in expenditures, to answer your question. But even if there was a windfall in the fourth quarter—

**The Chair:** Would you just speak a little closer to the microphone? We want to record all of this.

**Hon Mr Laughren:** Sorry. Even if there was an increase in some kind of windfall in the fourth quarter, we would not be looking for ways to spend that.

**Mr Phillips:** Okay, good. On the other one, I know you do not want to give the SkyDome number because that is a matter of negotiations, but there is \$400 million.

**Hon Mr Laughren:** There are also negotiations going on with the doctors as well, so if we started putting down individual numbers—

**Mr Phillips:** But those would be ongoing expenses.

**Hon Mr Laughren:** No, no. I am talking about negotiations with the doctors who have not settled. The province has not settled with them since 1988, I believe.

**Mr Phillips:** But the \$400 million is a one-time expense that will not be incurred next year. The SkyDome would be a one-time expense that will not be incurred. I am just looking for offsetting ones. I know you are concerned about the prepayment the previous Treasurer had for the three areas. I am just looking for other prepayments that you will not incur next year, one-time expenses, this \$400 and whatever is in there for SkyDome.

**Mr Salerno:** There is a certain amount as well for the settlement of doctors that is in fact retroactive to 1989.

**Hon Mr Laughren:** Then it becomes annual.

**Mr Phillips:** That is my point. I am just looking for things that will not be incurred next year, you can just take them right out of the budget.

**Hon Mr Laughren:** Okay, but if there is a retroactive aspect to it, that part is what—

**Mr Phillips:** I understand that; you would have to fund that. But it is \$400 million plus SkyDome, the non-recurring expenses.

**Hon Mr Laughren:** You persist in saying that, but you are not quite right. It is \$400 million for UTDC, plus the SkyDome, plus part of the doctors' settlement, assum-

ing we arrive at a settlement. The retroactive aspect of it which is not an annualized cost is a one-time shot.

**Mr Phillips:** I understand, but I am just—

**Hon Mr Laughren:** Okay, I think you understand.

**Mrs Sullivan:** My questions follow through from the third-quarter financial report leading into budget planning for the next year. It seems to me that as you are starting budget planning for the next year, you can really start, as the Treasurer, with a clean slate with all sorts of options. They may be a balanced budget, they may be a deficit, they may be revenue moves, they may be expenditure moves.

Many of the changes that you have already made, particularly on the expenditure side, will affect the 1991 budget. As you look at, with no revenue moves, about \$120 million a day coming in in revenue and an operating surplus that you talk about in the third-quarter report of \$669 million, you do have room to move this fiscal year and you have done so and some of the moves that you have made will in fact carry over to next year. I am thinking of things like \$500 million, no retail sales tax on top of the GST; capital projects, \$665 million left for next year; social assistance rate changes, \$365 million for next year; nurses—who knows?—but there has clearly been a promise made; this morning an announcement of \$52 million on child care. So you have some room to move and in fact you have already made some decisions affecting the budget next year.

One of the things that you have not done which has affected the municipalities is to announce the transfers and get your reflation fund, if you like, the \$700-million fund, of which \$34 million is coming out of this fiscal year and depends on municipal participation. I wonder where the municipalities' share will come from and when those transfer payments will be made.

The other thing I am wondering about in terms of reflation is, why has the water and sewage corporation not been taken up and acted upon. That agency was deliberately structured so that it could lever additional capital into the economy to deal with necessary environmental projects.

School capital has been placed over a period of three or four years in terms of announcement. Some of those could perhaps have come on stream earlier.

On the revenue side, we have talked about some of the expenses you have newly brought in to the 1991 budget. I wonder, as you are planning that budget, if there are revenue moves that you are deliberately leaving out of your calculation, including additional new payroll taxes.

**Hon Mr Laughren:** Perhaps I could start at the top of your list. I think your first basic question had to do with transfer payments. Correct me if I miss one here.

Transfer payments: We have been doing some fine-tuning, partly because of the numbers changing and so forth, on transfer payments and we are basically ready to go now. We are trying to get it ready for the next—I keep saying dates and having to backtrack from them, but certainly within two weeks we hope to have the transfer payments. I thought they would be out before now, quite frankly. I was a little disappointed in that.



**Mrs Sullivan:** Are you holding back because of the date of the federal budget?

**Hon Mr Laughren:** No, absolutely not. Mr Wilson did not give us a date for the federal budget the other day when we met, but I got the impression he is not going to delay it very long. The last date I saw flown around, not a specific date, was some time in February. I would not hold him to a particular week or anything like that.

My impression was he still hoped to do it around the end of February, but he did not give a date. He did not make that commitment, I hasten to add. It is more a case of making sure we had all the right numbers and consulted with the various ministers who were involved with the transfer agencies. We are quite anxious to get that out as quickly as we can.

On the water and sewage corporation, I think there has already been an announcement on the assignment of a deputy minister to help provide some muscle to that, Mr Pitura. It should be an indication that we are not trying to stall on that. We are taking that quite seriously, but there is still some review of what that whole role should be.

On the revenue side, I was not very clear. I did not understand your question about payroll taxes. Was there some reason why you selected payroll taxes for the question, or were you just using that as an example?

**Mrs Sullivan:** I think that at a time of deflation in the economy, a recession, it is in the interest of the business community to know whether it ought to be anticipating new payroll taxes in the next budget.

**Hon Mr Laughren:** I see. I think you know the budgetary process around this place as well as I do. I will be very honest with you, though. I am not trying to be vague or to obfuscate. There has been no decision on tax moves at this point. The consultations with the interest groups all across the province have really just started—that is where I just came from now as a matter of fact—with this committee. I am quite serious about looking forward to hearing from the committee because you are hearing from lots of groups and we are too.

It is a new experience, but it really is quite edifying.

**Mrs Sullivan:** But would you rule out payroll taxes?

**Hon Mr Laughren:** I would not rule out anything. I do not think it would be fair to start going through a checklist and ruling out certain ones, but I hope you appreciate the fact that that means it would not automatically rule them in either.

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**Mrs Sullivan:** The other question was, where will the municipal share on the reflation projects come from?

**Hon Mr Laughren:** A project is one in which the municipality normally has a share. They would continue to have that share and would be up to them whether or not they picked up that particular project and went along with it. If they decided no because they did not want to assign their resources to that particular project, that is fine. But that would be the normal process of sharing.

That is why we said when we made the announcement that it was \$700 million of provincial money and that if all

of the projects that we thought were out there would be accepted by the municipalities and school boards, because they were their projects, the total input into the economy would be about \$1 billion if they pick up the local share, add the local share into the provincial share.

So there was that built-in assumption right from the beginning. But I think you would have to commend us for not saying that it was \$1 billion of money. It was really \$700 million of a provincial commitment that only becomes \$1 billion if the local government picks up its share, the municipalities and school boards.

**Mrs Sullivan:** But you have cut back already in your estimate of what you would be flowing this fiscal year.

**Hon Mr Laughren:** Wait a minute now. It was not cut back. I think we started out with around \$40 million, \$41 million or something and it is back to \$34 million.

**Mrs Sullivan:** Yes, \$41 million to \$34 million.

**Hon Mr Laughren:** But that is not because we cut it back. As those projects can be taken up and approved—I mean a lot more than that have gone through the operations committee that is dealing with this. It is just a case of that is how much we think will actually be able to be spent in 1991, before the end of March, not because we are cutting back on it at all. We would spend \$50 million, \$60 million, \$70 million. The ceiling is there of \$700 million and so there is no attempt whatsoever to reduce that number in this fiscal year—none. It does not make any difference to us whether \$30 million, \$40 million or \$50 million go this year versus 1991-92.

**Mrs Sullivan:** That will make a difference to your 1991 fiscal year. We are talking \$700 million in static and you have dropped already from \$41 million to \$34 million, and possibly by year-end, if you cannot churn these projects in, it could be \$25 million.

**Hon Mr Laughren:** I suppose.

**Mrs Sullivan:** The impact on the next fiscal year is also going to be significant.

**Hon Mr Laughren:** But on a \$45-billion or whatever billion-dollar budget, it is not going to alter our fiscal position very much in 1991-92.

**Mrs Sullivan:** But it may alter the impact of the reflationary funding, the impact of the projects themselves in terms of economic turnaround, given that all of the economists, including from Treasury, are suggesting that the need for the reflationary impact is before the third quarter of the next fiscal year.

**Hon Mr Laughren:** That is a good point. That is why we are doing what we can to push them out there. The faster they get out there, the happier we are.

**Mr Stockwell:** I am concentrating on three specific areas today.

First, preliminary revenue projections for next fiscal year: I am certain you have some. Last year, the then Liberal government provided those preliminary revenue projections to this committee. We cannot seem to get them. How come? If so, when will you give them to us?

Second, on the deficit, you have suggested a couple of times that your next fiscal year's deficit is going to be



higher. You have said numbers do not fuss you; they do not I think "scare" was the word you used. You have taken a long hard look at that, I assume, and you know it is going to be higher and you have accepted the fact it is going to be higher. Have you looked at the other side of the equation, maybe wage and price freezes, some hold-the-line areas in the government where you could generate some revenue to offset some of the tax increases or increasing the deficit?

Third, when your Fair Tax Commission was announced, it was going to come back to you with some real important recommendations, preliminary recommendations in fact. It was not going to be a long-term, ongoing, for-ever-and-a-day commission. It was going to come back and give some serious recommendations reasonably quickly. Well, in a very short period of time, it appears to have taken on a life of its own. Originally, it was 12 months. Now we are talking 36 months as to when you will get a recommendation back.

Is the Fair Tax Commission your first plank for re-election come 1995? It does not seem to me, if you are going to get this report back in three or four years, you are going to have any opportunity to implement any of these concepts and ideas, and An Agenda for People will be put on hold because every time anyone asks you about that, you just refer them to your Fair Tax Commission.

Those three areas really interest me, particularly the deficit, and how soon your Fair Tax Commission is going to talk to you.

**Mr Laughren:** Thank you, Mr Stockwell. First of all, I do not know where you get the year 1995 from. We are considering a very early election.

**Mr Stockwell:** Consult with Mr Peterson.

**Mr Laughren:** Never mind, never mind.

I know you probably will not like this answer on the revenue projections, but I have no intentions of providing revenue projections until I have thought about what kind of tax changes, if any, we are going to put in place for 1991-92. I would be simply second-guessing myself if I did that. We are aware, however, that tax revenues are going to be relatively flat—I do not mean flat-line so much as relatively flat in 1991-92. Other than that, I cannot give you a number on revenue projections.

On the deficit, once again, it is basically the same answer. Until we have done our revenue projections and taken a hard look at the kind of expenditure controls we want to put in place, it would be pretty hard to give you a very precise number on the deficit. You asked a question about wage and price controls. I assume you meant across the entire economy.

**Mr Stockwell:** Within the province at least.

**Hon Mr Laughren:** Yes, but private and public sector?

**Mr Stockwell:** I was specifically speaking about the government.

**Hon Mr Laughren:** Oh, you are talking public sector.

**Mr Stockwell:** Yes.

**Hon Mr Laughren:** Why am I not surprised?

**Mr Stockwell:** Why do I feel like I know your answer?

**Hon Mr Laughren:** No, but you raise an interesting question. At the federal provincial meeting which is still fresh in my mind from Monday, the federal government is expressing concerns about settlements in the public sector all across Canada, not just in Ontario and in the federal public sector as well. I certainly do not see that as the cause of our problems. If we have problems in Ontario with revenues and expenditures and subsequently deficit, they are caused by the recession. You would be pretty hard pressed to point a finger at anything other than a recession which is not simply an Ontario recession. You could say it is a made-in-Canada recession. I would be inclined to agree with you if you said that, Mr Stockwell.

**Mr Stockwell:** I did not say that.

**Hon Mr Laughren:** But I think that the answer is to get the economy moving again, and Mr Wilson could have a major say in getting the economy moving again. For those reasons, no, I have not even thought about your suggestion.

On the Fair Tax Commission, we are tidying up, if you will, the final selection of all of the commissioners. We hope to make a formal announcement in the next two or three weeks. You will recall that we are going to ask the standing committee on agencies, boards and commissions if it wishes to review that selection of commissioners. That was raised in the Legislature at one point by Mr Harris. We want to make sure that there is an opportunity for that to take place.

We have been slower getting this thing started. I am not blaming the standing committee for this. The potential for the standing committee to slow the process down is there too, for up to about 60 days or 65 days, I think, while they have an opportunity to review the names that are submitted to them. We will make the announcement of names the same day that they are referred to the standing committee. That means that if the standing committee was to, say, deal with it that day or that week, then that is one thing. They may very well decide that they have got other priorities and will not deal with it. They have to deal with it within I think—I do not know why I keep saying 65 days but something like that anyway. If that is the case, then they would not really be able to become commissioners until their names have been vetted through that process. That will slow it down a little bit but we do not know how much since a part of that is up to the committee.

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**Mr Stockwell:** Just one quick supplementary. It is very difficult when you are dealing with questions to yourself, but the fact of the matter is every time you get a difficult question, you pass it off to the Fair Tax Commission.

**Hon Mr Laughren:** No, that is not true. Ask me a tough question.

**Mr Stockwell:** What I would like to know is when I will learn more about the Fair Tax Commission. When are we going to hear back from the Fair Tax Commission?

You are telling me it has slowed down. Originally, when you announced this, it was 12 months.

**Hon Mr Laughren:** No, I am sorry. I did not address that part of your question.

**Mr Stockwell:** So when are we going to hear back from it? There was a tough question. Sometimes you do not even answer them.

**Hon Mr Laughren:** We want information from the tax commission to be on an ongoing basis back to us. We are not going to be paralysed on matters of taxation, because we have appointed the Fair Tax Commission. We want to get advice from them as they carry on and we reserve the right to take action as well. The Fair Tax Commission is a commission that is going to advise us on making the tax system in Ontario fairer than I think most people feel it is now. I do not want to, on the other hand, pre-empt their role by moving on a wide array of taxes as we appoint them to do their job, so there is a line we walk with getting advice from them and not being paralysed and not taking any action on tax measures.

**Mr Stockwell:** Is the original date still in place, 12 to 18 months?

**Hon Mr Laughren:** No, I do not think you ever heard the 12-month figure from me.

**Mr Stockwell:** No, 12 to 18 months.

**Hon Mr Laughren:** If they completed their work in 12 to 18 months, I would be happy but I would be surprised if they can. I do not want to tell them their schedule.

**Mr Sterling:** I would like to follow up on Mr Stockwell's question. In terms of your concern with the federal interest rate policies and that kind of thing, we have had evidence in front of this committee that the inflationary pressures on the private sector are coming from the high wage settlements in the public sector. You say to the federal government, "What can we do as the government of Ontario to influence you to bring down interest rates?" You know interest rates are intimately tied to the inflation rate and that, if the inflation rate drops, then Mr Crow has more room to drop the interest rate. I understand that public sector wage settlements are 1.5 to 2 points above the rate of inflation in Ontario at this time. Does it not make sense to you to consider wage controls in the public sector in order to bring that down so that Mr Crow would have some room to drop the interest rates?

**Hon Mr Laughren:** First of all, I do not think that is correct. I stand to be corrected by Mr Salerno, but I thought that the public sector wages in the last quarter or two in Ontario were actually running below the private sector. I stand to be corrected on those statistics.

**Dr Christie:** The private sector settlements have been varying with respect to the public sector counterpart. In late 1989 they tended to be higher. This year it has moved around from quarter to quarter; there has not been a clear trend, although on average public sector settlements have been higher. Settlements have been declining and inflation has been declining, although one of the things that has been noted has been the role of anticipation with respect to the GST in terms of making settlements arrived at now for

next year somewhat different than the ongoing rate of inflation now, because people are anticipating an impact the GST.

**Hon Mr Laughren:** I might add to what Mr Christie said. By the way, I have a correction on what I said about the Fair Tax Commission. The legislative committee has 35 days to notify us, when we send in the names, if they want to review the appointments and then another 30 days to do so, to review them. That information will make clear.

Mr Wilson brings in the GST, which we think adds at least a point, I think more, to the rate of inflation. I do not think many people would say it was below one. People might say it was not 1.5, which we had built into our numbers. But I can tell you that it is a bit strange to bring in a tax that increases the rate of inflation by a point and then complain about us causing inflation. I mean, he cannot have it both ways. Also, I have never heard Mr Wilson nor Mr Crow—by the way, did you convince Mr Crow to come before the committee yet?

**Mr Stockwell:** Yes, he said the day you give us your revenue projections.

**Hon Mr Laughren:** I see. In other words, no.

**Mr Stockwell:** That is what we got about your revenue projections.

**Hon Mr Laughren:** He has never told anybody I cannot think of that anything the province would do, that he would then make a commitment to lower the rate of inflation and subsequently the value of the Canadian dollar, which Mr Sterling points out.

**Mr Sterling:** But there was a significant difference between the GST driving the rate of inflation up and a wage settlement which is in excess of the rate of inflation, because it is compounding every year. It was pointed out by several of the economists who appeared in front of this committee that while the GST drove the rate of inflation up by 1% that is 1% for ever and it does not feed upon itself. You are not willing, then, to consider doing anything to assist Mr Wilson in dropping the interest rate?

**Hon Mr Laughren:** Absolutely. We will co-operate with Mr Wilson in most ways.

**Mr Sterling:** What ways?

**Hon Mr Laughren:** We engage in bargaining with the public sector. That is one of the ways in which we try to control the expenditures of the province. Do not forget as well that there are such things as arbitration awards which can go beyond the settlements as well, so you have to keep that in mind.

**Mr Jamison:** Last week reference was made to your concern about the federal transfer payments to the province and the possibility of further decline from the federal government in payments to the province. Could you expand on that and what effect you would see there?

**Hon Mr Laughren:** Mr Wilson has indicated that he is going through the same process we are with trying to plan his budget, only he is closer to the date than we are. But he is not about to tell us any of his budgetary decisions at this point. He certainly did not tell us at our meeting.



possible to get signals and vibes and I certainly am very unhappy with what the federal government has done to us in transfer payments, not just now, for the last several years.

Just next year we think that what they call the cap on the Canada assistance plan, which is being challenged in the courts, is going to cost us over \$500 million and the squeeze on the expenditures on the established program financing over \$500 million as well, so that our revenues from the federal government will be down over \$1 billion, believe, \$1.3 billion to be precise. So that hurts in our ability to absorb expenditures as well and in particular when we are going through a fairly difficult time. I did try to make that point to Mr Wilson at the meeting, as you might expect, because that is my job, but he was not overly sympathetic.

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**Mrs Sullivan:** Can we just have clarification on that? Is it \$1.3 billion that you are anticipating in the cutback in transfers for 1991? Is that on top of existing cutbacks?

**Hon Mr Laughren:** No.

**Mrs Sullivan:** That would be the accumulated total.

**Hon Mr Laughren:** Yes.

**Mrs Sullivan:** Okay. Thank you.

**Hon Mr Laughren:** But actually if you go back to 1982-83, the reduction, correct me if I am wrong here, but at the same level of transfer payments from the federal government were in place today as back in 1982-83, we are not talking a billion, we are talking probably \$6 billion or \$7 billion lower than they would otherwise have been.

**Mr Salerno:** If I may add, the \$1.3 billion is only the impact of the 1990 federal budget modes.

**Mr Christie:** Federal budget modes, right.

**Mrs Sullivan:** So in February there was an additional one. We could be seeing an impact to the 1991 budget of well over \$2 billion depending on what might be—

**Mr Salerno:** Depending on what they may do; who knows?

**Mrs Sullivan:** In that particular fiscal year.

**Hon Mr Laughren:** Our feeling is that it is going to be a smaller pie overall from which to distribute to all the provinces and that we will be as one of the so-called "have" provinces—I do not like that term—but so called because of equalization payments. You can imagine we are a fair target. Sorry, Mr Jamison.

**Mr Curling:** Minister, I am going to follow up on the transfer payments. Immigrant groups have come before us here and are extremely concerned, and as we have the Ontario-Canada agreement and transfer payments coming across they feel that while two parents are quibbling around the money, they will be shortfalled on the amount of money they will get for programs like ESL training and a number of things while we have the increased immigrants here. Could you assure us, whether it is a shortfall coming from the feds or so, that I could say to these immigrant groups as they are coming in that the Treasurer came in and said: "Don't worry about that. That fight is between

the feds and us. Your money will be coming so your programs will be in place," and they do not have to close down their organizations and can continue the kinds of services they have done so well over the past years?

**Hon Mr Laughren:** Okay, but could you help with a clarification of your question? Built into your question, are you arguing for a higher deficit or more taxes? I am little confused.

**Mr Curling:** The clarification I am having is that if you do not get the money from the feds for that ESL program, if you will say to them, "I'd love to give it to you but that bad Mr Wilson or that bad federal government hasn't given me the money so I can't give it to you," they are saying, "I want you to reassure me that you'll tell them that yes, that fight is between us but your money will be found someplace else."

**Hon Mr Laughren:** Stop repeating the part of the question I understand. It is the part I do not understand that I want you to enlarge on. What are you building into your question, a higher deficit or more taxes?

**Mr Curling:** No. That is your problem about a higher deficit.

**Hon Mr Laughren:** But you would agree that one of those two is built into your question.

**Mr Curling:** Well, listen. I will go along, Minister, and say that you are not concerned about a greater deficit as long as the services of those people are looked after, because you see, as again the saying goes, these are the people who are last to hire, first to fire and also that any services that are coming to them they have got to wait a little longer and the burdens will be greater on the system.

**Hon Mr Laughren:** Mr Curling, I am not trying to trivialize your question, believe me. We are very much aware of that. I do not know what kind of line we will end up walking on that, but you are quite right. It is a very tough decision when you have cutbacks coming at the federal level, as we think there are, when we have revenues that are pretty flat and some expenditures that are very high. That is a decision that has to be made and that is part of the budget process which has not been completed: To what extent do we allow the go up and how high, and to what extent in the middle of a recession can you impose new taxes on individuals and the private sector? I mean, you put the dilemma in your question. It is built in, the difficulty of the process, and I know you are quite right, that is our problem.

**Mr Curling:** The dilemma is not in my question either. The dilemma is in their finding that they will not have programs.

**Hon Mr Laughren:** No, no. I understand that and we will try.

**Mr Phillips:** A couple of real themes have emerged in our hearings so far. Almost every professional forecaster—the banks, the Conference Board, I think Informetrica—I think it is fair to say, and I think your Treasury people as well have said, that we should see mid to late this calendar year the end of the recession or the coming out of the recession.



the municipal sector. There are a number of examples where the province has felt that it wants to retreat from an activity or that a municipality would be the better vehicle to carry out these activities and, therefore, it has been transferred. An example of that would be court security, which was a hot potato last year. We saw how that was transferred to municipalities without proper and full consideration of the impact upon the municipal budget.

This has a fiscal impact upon municipalities and the municipal sector cannot readily absorb these increased costs. We therefore ask that the impact for municipalities be properly considered when making changes or implementing new programs. It is our submission that responsible government should consider all corollary impacts, and this of course means that in provincial actions the municipal impact should be considered. This appears to have the support of some members of cabinet and, therefore, we would ask that this be considered and perhaps carried out by the government in the budget process.

The second thing I want to touch upon is our position with regard to the funding of social services. It is our position that the property tax revenues are obviously an inadequate and inappropriate tax base for social assistance. Social assistance is a program for redistribution of income and an equitable base for such comes from tax sources other than property taxes. We have seen reforms in social assistance and these were long overdue and welcome, but to an extent these are being conducted upon the back of the municipalities.

As a result of some programs, the case loads have increased within municipalities by about 50% across the province. For many municipalities these payments have greatly exceeded their budgets as the impact could not be properly foreseen. Our brief outlines statistics printed by the Ontario Municipal Social Services Association earlier in 1990.

I will just mention again our experience in Kent county as an example to show that county case loads have almost doubled and our expenditures were about \$2 million over budget. In Kent county that meant that even if the county froze all expenditures in 1991, it would still require a 12% increase in county levy to meet that deficit which resulted from the social assistance changes. The case loads are still increasing and, as unemployment rises in areas such as Kent county and throughout this province, we will see more recipients of these programs and this will be a municipal expense on taxpayers who can ill afford the expense required to meet these costs.

There have been a number of reports done in the past dealing with the issue, the latest being the Provincial-Municipal Social Services Review. Our brief echoes what municipalities across the province are saying, that this is a provincial jurisdiction with the need for provincial resources to back up these programs and municipalities should not be a funder of these programs.

Now the government has indicated its commitment to reform of the system, and this reform should include the funding of the system. Other aspects of these programs are suffering as a result of the maintained municipal involvement. For example, special assistance budgets within mu-

nicipal general welfare assistance budgets are suffering. Municipalities are reducing special assistance budgets because they can no longer afford it. This is at the expense of the recipients of social assistance.

The Treasurer had a recent announcement involving assistance in funding to deal with the latest increase and this was a welcome step in this direction. I would urge you to continue the process in the 1991 budget to show the government's commitment to reform of the social assistance system. At this point I will turn it over to Mr Richards.

**Mr Richards:** Good afternoon. I speak to you as chair of AMO's fiscal policy committee and as treasurer and commissioner of finance of the region of Peel and treasurer of the Peel Non-Profit Housing Corp.

AMO would like to see the province's 1991 budget acknowledge the need for an examination at least of alternative sources of revenue for municipalities. You will recall a prior provincial budget which imposed a \$5-per-ton tax for the disposal of tires which went into the provincial coffers while leaving the disposal of tires a municipal responsibility. We would like to see similar ingenuity directed to the municipal revenue stream.

The second point I would like to make is that AMO well fully supports the reintroduction of Bill 229, a bill that will take municipal investment and borrowing in Ontario out of what have to be called the Dark Ages. It is, for example, illegal for me as a treasurer to use a computer to record certain debt transactions. Clearly, there is an immediate need for reform of municipal investment and borrowing in this province. Back to you.

**Mr Hopcroft:** We all acknowledge that this coming budget will be a difficult one for a number of reasons, the economy and the transition being two of probably the most prominent features. Municipalities have been rightly concerned about the direction of the province in the past in terms of what was expected of them other than continual looking to increased responsibilities without the means to finance those responsibilities.

The first budget and the impending transfer payments I think, will be a key indication to municipalities as to the philosophy that the new government will have towards the municipal sector. We would hope that whatever action the government takes, it reflects the recognition of the importance of the role of municipal government and also respects the autonomy of municipalities as indeed a legitimate form of government with legitimate roles and responsibilities.

We would like to see those roles and responsibilities restructured. We would like to see some clear indication in the coming budget of the province's commitment towards that re-evaluation of the existing relationship and movement towards one that I think would recognize the significant areas of influence and interest and also the revenue sources available to the two levels of government.

As long as municipalities continue to have some of the responsibilities that they do, there is a clear need for revenue-sharing between the province and municipalities in terms of funding some of the very substantive soc-



programs that municipalities have been funding over the last few years, welfare obviously being a significant one.

As our president indicated we would leave, we hope, a significant period of time for questions, we welcome questions from the committee at this point.

**Mr Jamison:** I know that in our own area there is a significant burden right now on the welfare and social assistance programs and this is reflected, as I see, right across the province. What kind of impact do you see in the next fiscal year there?

**Mr Harrison:** The answer to that question is always sort of episodic. We can say that it is going to be bad across the board, but we all have our own horror story. In the Malden-Norfolk region, which delivers GWA at that level in our area, budgeted in 1990 for a 25% increase in our costs for GWA over 1989. We are in fact coming in at about a 65% increase, which is 40% over what we had budgeted for. Luckily, we did at least provide for a 25% increase, and our commissioner is indicating to us that we should be looking for a further 65% increase in our budget in 1991.

The problem that we have with social assistance is simply this: It is clearly a provincial government program. All of the decisions in regard to welfare are made here in this building on this hill. None of them are made substantially at the local level. But every time the province decides that there is going to be an increase in GWA, we carry 20% of the can. Every extra dollar that goes out in GWA is 30 cents yours, 50 cents the feds' and 20% ours. So you people are making decisions that are costing us a tremendous amount of money. That is our basic problem with GWA.

We do not object to enhancements to the program. We do not for a moment question the idea that there has to be a net for people to fall into when they get outside the normal income stream, but we think that if we are not going to have the authority to make any of the decisions and all those decisions are going to be made at the provincial level, that has to become a provincial program 100% provincially funded.

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**Mr Sutherland:** I can certainly understand the concern over the welfare issues. I just wonder if we can get a little more specific about some of the other programs, because we have had several groups here who have come and requested funding but they also talked about community standards and reflecting the needs of specific communities. I get a sense that it is very difficult to have all strictly provincially run programs and then be able to meet those community standards. I was wondering if you could comment on that process in relation to some of the things Mr Hopcroft was saying about disentanglement.

**Mr Harrison:** Let me say maybe to begin with, it is not the position of our association, and I do not think it is the position of the municipal sector generally, that the province should take over all these funding responsibilities and somehow give us a windfall. Whenever we have spoken to the government, we have always acknowledged the fact that if the province is going to take over a funding

responsibility, for example like GWA, we have to find a way to have a mirror transfer back to the municipal sector of a funding responsibility.

The first time I spoke to the Premier and the first time I spoke to the Treasurer, the first thing I said to them was, "We are not here for a cheque; we are here to find a way to disentangle our relationship so that you pay for your programs and we pay for our programs and the net effect is a zero-sum balance."

Let's look at some local programs, for example. Local roads is an issue that might well be transferred back to the local level; policing, to a certain extent; provision of sewer and water facilities; perhaps local public health. There are all sorts of them.

Mr Hopcroft is better at this than I. Grant, give me a couple more that we might be willing to take on further responsibility for.

**Mr Hopcroft:** I think looking at perhaps a broad policy framework, generally our position has been that if it is an income support program that has as its goal redistribution of income to the less advantaged in our society, that should be a provincial responsibility in terms of funding from the provincial, and to a lesser extent from the federal, income tax under the Canada assistance plan.

We would like to see more responsibility, and of course it goes with it that we would be prepared to pay in those areas where there is not an overriding provincial interest to ensure consistency across the province. It really should not be a matter for the province to dictate to municipalities the standard for a local street that may have 8 or 10 houses on it. We certainly understand that there is a provincial interest in ensuring that provincial highways and major roads between municipalities and between areas of municipalities are maintained to a certain standard that the public can come to expect and rely on with some degree of assurance. I do not think we want to pin down at this point any firm positions, other than trying to come to something within those broad policy guidelines.

**Mr Sutherland:** Is there a set percentage figure increase that you think the majority of your members are looking for or feel would be comfortable to kind of start turning the tide this year?

**Mr Hopcroft:** I think in terms of the unconditional transfers we are looking for at least a minimum equal to the rate of inflation. As I had indicated, we are expecting an inflation rate of somewhere between 5% and 6%. I think municipalities, on the unconditional side, are looking at that type of transfer. On the conditional side, obviously the costs of various programs have gone up more than others. We are obviously pleased to see the movement that has been indicated already in terms of the province picking up the additional cost to the welfare rate increase over the 5%. That is certainly a welcome sign. It obviously still does not go anywhere close to the 100% provincial funding that we would be looking at.

We really feel that the province should recognize, as has been referred to already, the fact that many municipal budgets have been severely impacted by increases well above the rate of inflation, and in fact well above the



astronomical increases that many of us budgeted for last year. When our welfare and social services people came to us a year ago and said, "We're budgeting 35%, 45% increases in this program area," we figured, "Gee, we hope it does not go this high," and in fact in some cases it has almost been double that. It has been a real strain and municipalities have had to cut a lot of local programs to meet those kind of expenditures.

**Mr Harrison:** One thing that I guess we should say in regard to that as well is that the committee has to keep in mind that we statutorily cannot deficit finance. We cannot deficit finance our operating, so when we run a deficit in a program area like GWA, we either have to cut that money out in that year from some other program that we decided to do, or alternatively we are faced in the next budget year with, "The first thing we have to do is cover that deficit." So we have municipalities where the first thing they are going to have to do in 1991, before they even consider maintaining the same level of service, is pick up a deficit that was generated in 1990 by the overruns in GWA.

The province, of course, is not in that position. If your Treasurer unfortunately has a deficit, it just gets capitalized and you do not have to automatically pick up that amount of money in the next fiscal year.

**Mr Hopcroft:** We are certainly not recommending that municipalities be given that option.

**Mr Harrison:** No. We are just pointing out that it is really a double whammy when something like this does happen.

**Mr Phillips:** You answered part of my question, which is, as we look at just the short-term—in the next few weeks I guess you will be getting your grant announcements—and the way we should think about them, is inflation on the unconditional and something that reflects your cost increase on the others? My question for the longer term is, I would not mind from AMO something you have not touched on, and that is just how municipalities are seeing the economy, just to give us any advice in terms of another perspective on the economy.

Interjection.

**Mr Phillips:** Let me just finish. You were here earlier. I think you heard that we have heard from the professional forecasters that things look relatively good over the short term.

The second one is just a comment. I think the debate that the province will have with municipalities will be interesting just in terms of devolution and not unlike the debate, in a different way, that is going to occur nationally, which is responsibilities and those sorts of things in a different sense, but it will be a very worthwhile debate that has begun now and that we will simply look forward to over the next few years. I got my answer on the grants, but can you give us any advice on how municipalities are seeing things?

**Mr Richards:** I think you should know up front that municipalities do not have the macroeconomic economists that—

**Mr Phillips:** You have had enough of them.

**Mr Richards:** We just see what we see. We see housing starts down. We see literally riots at some of Peel's welfare assistance offices. We have had police there now most days just to keep order. We see revenues from building starts down. I am talking from the perspective of a municipality that most of you would think is rich, being the region of Peel. We know we are in a recession. We are on the front lines. My staff know we are in a recession. We have two staff in charge of shutting off people's water for lack of payment and they are working around the clock.

**Mr Phillips:** That is amazing to me.

**Mr Richards:** In terms of what is down the road, I know of what I read, and I deal daily with all the Bay Street firms. We are in a recession and it is going to get a little bit worse before it gets better. We are hoping for a pullout of this thing by the end of 1991, but we are really battenning down the hatches. The sad point is, as has been discussed, we are trying to deliver a budget that is going to come in at 4%, 5% for our taxpayers. We are starting at 4% because of welfare, so it is well nigh impossible for us to give the taxpayers what they want because of factors we cannot control. In one of the richer municipalities in this province, we have a 4% tax rate, before we start, just for welfare.

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**Mr Phillips:** That is the increase in the mill rate, not expenditures.

**Mr Richards:** That is the increase in the mill rate. That is the little thing you get in the mail. You open it up and you say, "Holy cow, the region of Peel did it," and we cannot put a videotape in there saying, "We didn't do it. Look somewhere else."

**Mr Phillips:** You put all the words in there; you just do not put the video in.

**Mr Richards:** People do not read it. They pick all the words, put it in the garbage, and they see the name and they start to yell. Municipal politicians are going to lose their jobs for things they cannot control.

**Mrs Sullivan:** I was interested in some of the list that you indicated could be turned over to municipalities completely. You included water and sewer in that list, which is kind of found surprising, and left the whole waste management area, which perhaps has been taken over by the Minister of the Environment, or perhaps has not. But in many ways you are talking about longer-term funding matters. I was interested in your questions or proposals that there be changes in the ability of municipalities in the investing and borrowing area. I wonder if you could tell us, first of all, in more detail where you see some of those changes and second, what level of borrowing are municipalities at now. Are they at pretty close to the 20% that they are allowed under the Ontario Municipal Board?

**Mr Richards:** It varies. If you read budget paper E a couple of years ago, we could buy small countries out with our debt capacity. If you look at individual municipalities episodically, there are some that are right up against it and should not be borrowing any more. There are some very large ones that are doing very well debtwise; however



re is a tradeoff. You may have very low debt but very high taxes because you choose to charge taxes as opposed to borrowing, and I have heard some provincial staff try to download capacity or the level of reserves as ammunition for not helping, but you have to look at the entire picture plus what is coming down the road.

To use an example close to home, the region of Peel has about \$100 million in its reserve just for waste. We do not know we have hundreds of millions of dollars coming down the road, so are we well off or not? You have to do it on a case-by-case basis. If you do all the aggregates, we will probably be better off than the province of Ontario in terms of debt capacity. Our tax rates, though, are outstripping yours annually, so it depends on where you look and whose ox is being gored.

**Mrs Sullivan:** You have not mentioned in your paper who pays in terms of waste management and the very serious problems that are coming forward in terms of recycling programs and the other two Rs. Where do you see that moving?

**Mr Harrison:** As an association, and as I talk to my friends in the municipal sector, I think that there is a commitment in the municipal sector—and some of these people may disagree with me—to be the lead agency in terms of waste management. We do not have a problem with the concept that waste management is a municipal responsibility and should be funded municipally. We are going to have to change, as municipalities, some of the ways we do it. We are going to have to have some help, certainly in the short term, in terms of our recycling programs. We have made representations in regard to ongoing provincial subsidization of the recycling programs, but fundamentally we are satisfied that waste management is a municipal responsibility.

**Mr Hopcroft:** Residential, and we do not want to get into hazardous wastes. We recognize that is something that needs to be co-ordinated on a provincial basis. I guess if I can add one thing it is that if we are to have that responsibility, there really needs to be some substantive change to the way that waste management is handled and there is an overriding need for the province to be involved in terms of regulations regarding things as simple as packaging to ensure that in fact we do not have excessive waste going into municipal waste management systems.

We also would, I think, state very strongly, for those areas that we do have an interest in, that we not be left out of the negotiations as we have so many times in the past between the province and the industrial sector. The recycling cost-sharing formula which is in place right now we feel is a perfect example where a deal was made that was not to the benefit, long term or short term, of municipalities and really did not have polluters paying the costs that they should.

**Mrs Sullivan:** So for this fiscal year, you have not included it in here, but in fact you will be seeking funding to assist in the implementation of existing and future recycling programs.

**Mr Harrison:** The existing system is that for start-up recycling programs the capital costs are borne one third by

the municipality and one third by the private sector and one third by the province. The operating costs in the first year are 50% provincial, 50% municipal, and decreasing over five years to being entirely municipal. Our position is that we should have a new regime whereby any net operating loss in a recycling program should be borne one third provincially, one third private sector and one third municipal.

**Mr Christopherson:** I have no questions really. Having spent five years on city and regional council and being a former colleague of the presenters, I am clear on the issues. I am clear on the position of AMO. Just a statement, though, if I could to acknowledge how focused and clear the report is. I think in particular the members on this side of the committee room, if you will, are impressed with the fact that it is not just a question of laying out a whole host of demand items with a price tag on it. Certainly there are many groups that are doing just that, and justified in their own right, but I think there is more that needs to be done between municipalities and the provincial government and I think they may have gotten lost in that kind of firestorm, if I can use that term.

In addition to the new economic relationship which a lot of us made as part of our election campaign and are hoping to see instituted as part of the new government, is also a commitment to the relationship itself. I was at that first-ever emergency meeting as a delegate on behalf of Hamilton to talk about what was going on provincially and municipally at the time of the transfer of the police out of the courtrooms, all the taxes that were suddenly being dumped on. I think that is when we kind of reached the limit.

I think that you have offered up a document that helps set the stage. I know that your private discussions with ministers and members of the cabinet are going very well and they are being very well received. I think you are feeling that too in their response to you.

As one member of this committee and as the assistant to the Treasurer, as well as a former colleague, I suggest to you that I think you have made an excellent first formal step today in your presentation. You have outlined the issues and I hope that by the end of our term in office you feel that we have been able to effect the kind of changes that you are looking for, which I quite frankly think are necessary if we are going to have a proper positive future, especially in light of some of the other relationship problems that we have within Canada right now. Thank you very much for your presentation, for your brief.

**The Chair:** On behalf of the committee, I would like to thank you for your presentation.

**Mr Harrison:** Thank you.

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CANADIAN MANUFACTURERS' ASSOCIATION,  
ONTARIO DIVISION

**The Chair:** Our next presentation is from the Canadian Manufacturers' Association, Ontario division, Eric G. Owen, director of taxation; John Marczynski, director of taxation, Stelco; John Carlos, director of taxation, Du Pont. Thank you for coming this afternoon. We are trying to



stick to our time limit today, half an hour for presentation and questions, if you would begin, please.

**Mr Owen:** It is a pleasure to appear before this committee to outline CMA Ontario's pre-budget submission to the Treasurer of Ontario, and copies have been provided. With me today are John Marczynski, who is with Stelco. He is the taxation chairman of CMA Ontario. He is on my left. John Carlos is the director of taxation, Du Pont Canada.

To start, I would like to point out that CMA Ontario represents approximately two thirds of the total national CMA membership and our members account for about 75% of the total manufacturing output in this province of Ontario.

The importance of the manufacturing sector in Ontario is reflected in the fact that manufacturers provide approximately 35% of direct and indirect jobs in Ontario. The manufacturing spectrum which we represent includes, among others, transportation equipment, food, chemical, electrical and electronic products, primary metals, paper products, machinery and equipment, printing and a variety of consumer goods. Manufacturing, as I am trying to offer to you, is big business in Ontario.

I would like to turn the microphone over to Mr Marczynski, who can outline for you what is in the the CMA's pre-budget submission.

**Mr Marczynski:** I would like to make a statement. Ontario manufacturers are facing the 1990s with the recognition that this decade will bring the toughest competition they have ever faced. We mean that. The globalization of world trade and manufacturing, the harmonization of the European trading system, combined with rapid technological change and product/process innovation will challenge manufacturers to adapt to changing markets. How Ontario manufacturers perform over this coming decade will significantly determine the province's future employment prospects and standard of living.

While the manufacturing sector has shown great strength over the latter half of the 1980s, Ontario's relative competitiveness has declined over this period, and in particular since 1986. There have been many articles, papers and studies performed in this area by more capable and knowledgeable professionals than us who have overwhelmingly concluded the same. This fact is based on Ontario's rapidly increasing tax burden, increasing government intervention in all areas of business affairs, and the punitively high cost of capital that is determined both by high interest rates and the worsening tax treatment of capital investments in Canada and in Ontario.

For example, since the mid-1980s the deduction for new capital investment in Ontario manufacturing has moved from a significant competitive advantage to a small disadvantage when compared with an equivalent US manufacturer. Let me just point something out: Years ago manufacturers, prior to stage 1 of federal tax reform, could write their equipment off in two or three years. That has been moved to roughly 12 years, so you do not need a computer to figure out the big edge we have lost.

It is recognized that the policy initiative of the Ontario government by itself has not created this situation, nor will it correct it alone. However, reversing these damaging trends and reviving Ontario's relative competitiveness is essential to maintaining a strong manufacturing base. While the free trade agreement has opened new markets in which we can effectively compete, the removal of trade barriers and tariffs has resulted in investment strategies focusing more attention on the costs imposed by the relative tax systems on the manufacturing sector and the impact it has on the return on investment capital.

Ontario manufacturers have demonstrated in the past that they can compete and capture effectively both domestic and export customers. However, the ability to continue to be successful is in question since the proportion of tax from the manufacturing sector has increased at a greater pace since 1980 than increases in their profits. This has resulted in a significant drag on Ontario manufacturing ability to fund new technology, plants and business systems in order to even hold on to existing customers.

Ontario manufacturers challenge the government to adopt the goal of and be a leader in making Ontario one of the most competitive and attractive investment destinations in North America. Pursuing this objective requires placing a much higher priority on the competitive impact of all current and future legislation. Ontario manufacturers will take the leading role in creating a more aggressive export-oriented manufacturing sector. However, government policies must show a stronger commitment to the goal of competitiveness if a favourable climate for manufacturing investment and production is to exist through the 1990s.

We believe that the following recommendations, which we have made to the Treasurer of Ontario on Ontario taxation policy, will help build a stronger and more competitive manufacturing sector and will help promote sustained economic and employment growth in the 1990s. We made six major recommendations to the Treasurer and I would just like to read them into the record.

The first one was to delete the Ontario current cost adjustment sunset clause. It was a major piece of tax legislation that offset the damaging effects of federal tax reforms and that is set to expire at the end of 1991. We would like that sunset clause removed, so that we can continue investing in new capital with the support of the province and the taxpayers of this province. It is an investment in our manufacturing facilities. It is an investment in jobs. It should not be looked upon as an expenditure.

**Mr Christopherson:** That is 30%?

**Mr Marczynski:** Yes.

**Mr Christopherson:** It was 15% and went to 30%?

**Mr Marczynski:** Yes, that is right.

The second recommendation: The Ontario and federal governments should co-operate to ensure that they do not tax each others incentives.

Three, no introduction of new taxes or tax increases. There have been a lot of rumours about energy taxes, green taxes, carbon taxes, training taxes. We think there are other alternatives the government should be looking



her than putting additional burdens on a sector that is bleeding right at this point in time.

The others are, ensure that the Fair Tax Commission has balanced representation, harmonize federal and provincial consumption taxes, and perform a competitive impact analysis on all legislation.

These are detailed in our submission. I would like to open it up now for your questions.

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**Mr Phillips:** Thank you for the presentation. I will give you a personal opinion. I think this is going to be the issue of the 1990s, but I will give you another personal opinion: I do not think people realize it yet, so it is going to be very difficult for you to achieve your objectives, in my opinion, until the problem is clear. I think personally that the problem is just on the horizon, and for the country we are going to have to come to grips with it a very fundamental issue here. With all due respect to you, there are other groups that are able to make their case right now a lot better, but I am with you on it. I really think you are going to see this as a significant issue, but it is going to be challenging to move on it in the short-term, I suspect.

My questions really are these: One is that I have a perception that the economists do not share, that we may be seeing manufacturing leaving the province and the country at a significant rate. By the way, on the numbers you show of 70,000, I think if you look at the numbers at the end of December in manufacturing, it is 110,000. That's 11%, I think, of the manufacturing jobs gone over a 12-month period. The economists tell us: "That's just sort of natural attrition and what not. When the economy gets rolling, just tramp the accelerator and away it will go." I wonder if you can be of any help on whether the economists are right that this is the case or whether we are seeing significant manufacturing jobs leaving the province and the country.

My second one is, again the economists have told us that they think the end of the recession is not far off, a matter of months, some time in calendar 1991. I think all of us believe that, the Treasury and what not. What does the CMA or the CMA Ontario branch feel about that? I would appreciate your comments on it.

**Mr Owen:** I think it is a very interesting proposition that you have said about the misunderstanding of the importance of manufacturing in Canada and in Ontario in particular. We in Ontario look at manufacturing as the engine of growth. We look at manufacturing as the creation of wealth in Canada.

**Mr Phillips:** I agree with that.

**Mr Owen:** If, for example, you were solely to rely on services, it just will not happen, from the point of view that we will find there will be bleeding of our wealth into other areas and that we are not creating any further wealth in Canada.

This leads to the point, and it is one of the points John Marczynski did make about the competitive edge for manufacturers, that I would like it on the record at this time that we are not asking to be equal with anybody else; we want to be better than everybody else. What I mean by that

is that we want to have a better competitive edge. Just making us equal is not good enough, because money flows where it is easiest, and if there is just one little edge, if the tax environment is equal and there is one little edge, you will find money will go where that little edge is. So we have to give Ontario manufacturers a better than even chance to actually respond to that.

Looking at manufacturers leaving, indeed you are quite right when you say that we have said the employment fell 70,000 in the 12 months ending in November 1990. We put this pre-budget submission to bed in time to get it to the Treasury—you must understand that—and we have recognized that there has been further attrition since that time.

Regarding manufacturing leaving the province, yes, I would say manufacturing is leaving the province. It is not solely, however, because of free trade. A lot of people like to point and say, "It's free trade."

**Mr Phillips:** I did not say that.

**Mr Owen:** I know you did not, but the thing is that you have to look at it very closely and see where the best rate of return can be expected, and that is the where money goes. I am not suggesting that we will find manufacturers will just up and leave the province. They have already a great investment in Ontario and as such it is fallacious to think that they will walk away from this. That will not happen. However, what we are looking at here is new investment, and this is the key to the whole equation.

Regarding the length of the recession, we do say here in the document 1991, but then from the point of view, you have to realize that manufacturers have been screaming the R word. According to Mr Wilson you do not say the R word, but the thing is that we have been screaming the R word for longer than it has been acknowledged by the federal government. We have been screaming the problems of manufacturers for more than two years.

Do any of my colleagues wish to make any comments?

**Mr Marczynski:** The R word: We may be starting to play with the D word in certain sectors of the manufacturing community. You see what has happened in the Sault and—

**Mr Phillips:** What sectors?

**Mr Marczynski:** Steel: There are really serious problems in that industry. We are not just talking about jobs moving south of the border; we are talking about companies going bankrupt, where nothing is going anywhere. That is what we are dealing with. And the recession for the manufacturing sector started much sooner than for the rest of the economy.

**Mr Sutherland:** My question is kind of picking up on Mr Phillips and talking about the significant changes that are going to be occurring in the next decade in manufacturing. I want to focus specifically on skills development. I know the CMA had some representation on the Premier's Council on skills development. I was wondering if you could give some comment as to where you think the specific focus should be going on that. It would seem to me that if we are going to have manufacturing rebounding, then the strong emphasis is going to have to go in that way.



I would appreciate maybe some short-term advice, whether you think there are any budget implications that way for this year and then over the longer term.

**Mr Owen:** Again, I recognize the importance of the question. I do not believe this group is oriented to industrial relations. Indeed, we do have a group that is looking at skills development. We in the manufacturing sector have been very very concerned over the years about the actual fall-off of skilled tradesmen in the manufacturing community. We do not wish to just have jobs where people go and press a button hour after hour. We are looking for enrichment. We are looking for the betterment of the standard of living for the manufacturing community. We do recognize that we are downscaling or downsizing in terms of job creation in manufacturing. However, this in large part relies upon technology advances and this type of thing.

What we want to do and what we are at this time doing, with the development of the Premier's Council, is that we have made comments on that. We also are looking at working with the federal government to create skills training programs. This is something that the Canadian Manufacturers' Association is well into and we hope to have this on the road at least by the middle of this year. We hope that this will certainly encourage people in the schools, who will come out and recognize manufacturing as a viable career. This is one of the things we do believe it to be. I think that is the best I can say at this time.

**Mr Christopherson:** A couple of questions, if I can: One, the OCCA that was referred to, John, that you talked about—since you made your presentation and I got on the speakers' list, I have had a chance to read what is here. Maybe you could just expand on the reason here why you would like to see it extended, in the context that the initial reports I am hearing are that there was not quite the pickup on this that we had thought might happen. I realize you are suggesting that it might have been the time frame, that it is just not long enough for those kinds of decisions to kick in. I would like to hear that also for the record, because that is an area of discussion in the Treasury.

**Mr Carlos:** Maybe I could answer that for you. We are talking, number one, about new capital investment and this is where the Ontario current cost adjustment has its greatest impact. The capital expenditure would be of a duration, depending on the size, of three to four years, from the time a decision would be made to invest to the time we have our first piece of production.

Therefore, recognizing that time frame, if for example today I was going to make a decision to build a new fibres plant or if Stelco was going to build a new steel rolling mill, the investment would take quite some time. The impact of the OCCA, being sunsetted by the end of this year, would really have very little consequence on the investment decision. So if I had the opportunity to invest either in Hamilton or in Kingston versus, let's say, in Oklahoma or the state of New Jersey, I would therefore be competing with a similar kind of investment decision with other strategists, and they would be looking at their ability to depreciate or write off their investment and we would be looking at ours, and they would have that small advantage

that John mentioned earlier, where at one time we had significant advantage.

What I am saying is, the sunset will have virtually no impact on major new investment if the Ontario current cost adjustment is sunsetted by the end of 1991.

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**Mr Marczynski:** It is very important. The big project that companies get involved in do take that long. One of the problems we have here is that some business decisions have been made on the basis that the OCCA would be 30% for the future. There are some corporations that are very concerned right now that they have been sort of short-changed, because they have worked out the economics for their project on that assumption and we have changed the rules again midstream.

You have to go back to why it was put in in the first place, and that was basically to offset the removal of the fast write-offs at the federal level. That gave Canadian manufacturers a significant advantage over the US. Right now the US can write its equipment off in seven years. It probably takes us 10 to 12 under the new rules.

It was playing a very important role. You also have to realize we are going into a recession right now. I think one of the strategies with sunsetting it at the end of 1991 was to see if we can get businesses to dig into their pockets and spend in a hurry.

There is just no cash there right now. You pick up the paper every day and there is someone saying he is slashing his capital spending by 50% or eliminating it totally.

With due respect to the Treasurer of Ontario, I would suggest that strategy will not work right now. We need the plan in place during that period of recovery. That is going to take a number of years.

**Mr Owen:** If I could add one comment to that, I did note that you referred to it during the overview, that you asked the question, was it the 15% that went to 30%? Yes, that was indeed the OCCA that we are referring to.

However, you have to realize that it was only enacted into law this month under Bill 10. As such, a lot of corporations, especially the big, shall we say, mother corporations of the United States—because of the regime under which they work in the United States, and perhaps some of the Canadian companies—would be a little more aggressive, but the American companies would not move at all until that was actually in law.

What you have actually seen now is that we have not sunset clause on something that has been in place for three years; we have a sunset clause on something that was put in place as of January of this year and it is going out as of December this year. In other words, what we are talking about is a 12-month span. That perhaps is one of the reasons why the Treasurer did not see the impact of aggressive tax planning. The planning was going on, but the actual investment was not going on because until it is in place—we are very sceptical from the point of view; we do not have a lot of money—we have to direct it in those areas we think are the best areas. We can look along those lines.



**Mr Marczynski:** One thing I would also point out the problems in Quebec. They are really getting behind the manufacturing sector. They have a 100% write-off now on manufacturing equipment. When you get into manpower training. They are not talking about slapping taxes on employers. They are encouraging them to run training programs and have developed a refundable tax credit system here. They are also reviewing the provincial capital tax with a view of possibly eliminating it for manufacturers.

We have found former governments to be very supportive of manufacturers. When Allan MacEachen and others were hurting certain sectors of the manufacturing community, the former provincial treasurers were down here in Ottawa telling them they were going the wrong way. The OCCA was a message to the business community in Ontario that, "We support you, the federal government may not." It is important to realize what is going on in the world outside of Ontario and also to look at what manufacturers are doing in Japan and Europe. In some sectors they are spending at twice the rate that we are here. If that pace keeps up, we are going to be sliding in that you will not have a manufacturing sector, a strong one anyhow.

**Mr Christopherson:** Thank you. With your indulgence, Mr Chair, a quick question on the economy. Everybody is telling us they expect the dollar to be going down somewhat, and who knows how much, the same with interest rates, if that happens, nominally to the best-case scenario, but it does happen. However, if there is still a sense that there is a weak economy—perhaps the war is still under way; the American economy has not bottomed out—some people feel it has—do you think that would still be enough of a catalyst for the manufacturers to be pulling some projects or beginning to invest some of the money they are currently hanging on to?

**Mr Owen:** If they are currently hanging on, it is by their actual fingertips because what we are seeing, and we have reflected this in the submission, is that interest costs are really hurting badly. We find we had a 1981-82 recession and we were looking at leverage as being one of the big problems. People were going bankrupt all the time because of the high interest costs which were due and it was not dividends versus interest. We did see a great amount of restructuring since that time. However, it still is not as, shall we say, healthy as it was. There is still a lot of leverage out there. It is high impossible to get equity funds these days. People still have to go out and look for leverage funds.

Looking at the interest costs, according to our calculations, the costs now amount to 2.8% of total manufacturers' operating expenses, compared to 1.8% in the fourth quarter of 1987. That is very considerable. Also, looking at this from the point of view that this has reduced our profits and cash-flow and our ability to invest, we are hanging on by our fingertips along those lines.

The Canadian dollar, we again have reflected and referred to this in here, we do believe is now worth, in US dollars, about, 77 cents in terms of its true economic purchasing power. We look at this and we say if that is the case and it is only 77 cents, this is the equivalent of a 12%

export tax or indeed for imports coming into the country, a 12% discount on imports coming into the country. I do not know any Canadian who manufactures imports coming into Canada. We have to look very, very closely at the jobs that are in Canada. We have to make sure our ability to compete with the exports in the global economy is there. We have to look at it very, very closely.

Mr Marczynski mentioned Quebec as being one of our major competitors. This is something we do not look at. Perhaps something that is not apparent right now is that Quebec has been the first Canadian province to harmonize its consumption taxes with the federal government. Where we in Ontario will be able to take back from a GST, for the point of manufacturing, seven percentage points, in 1982 Quebec will have a 15-point edge whereas we only have seven. This is a further eight-percentage-point widening. We cannot afford that; if we want the jobs to go to Quebec, that is fine, just stay where we are, but from the point of view of wanting to keep the jobs, which we do believe we want to keep the jobs in Ontario. We have a very good province of Ontario. Over the years we have had a very good life here. Let's keep this.

We challenge, in our paper here, the Ontario government to be a partner with us because this is something we do believe in. We believe what we are looking for is to align our resources, to look at manufacturing as the engine of growth—spend on offence. We as Canadians see this all the time. We see Canadians saying: "We are not very aggressive. Let's start being aggressive." These are some of the things that we are starting to do. Let's make governments competitive. These are the things we are looking at. We are looking at an environment in which interest rates are low, savings rates are high, government expenditures are in balance and the tax system makes industrial restructuring feasible and attractive. This is what we want. This is what we hope the new government of Ontario will really take to heart and that it will look at the jobs that can be created, the standard of living that not only can be maintained but also increased and take into consideration those people who are feeling the burden of the recession right now. It is bad out there. You do not have to tell us it is bad. We know it.

This is what we want to offset as well.

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**Ms M. Ward:** I appreciate your comments about the interest rates and the exchange rate. That may be part of your answer to the question I am going to ask.

I was struck by two comments made a little time apart that sort of took me down memory lane to about 1987 or so. You were talking about manufacturing leaving the province and saying it is not all due to free trade. I appreciate it is not all due to free trade.

Then you mentioned that we might actually be in a depression in some areas; you mentioned steel. What I was remembering then was that the big selling feature of the free trade agreement when it first started to be talked about was the steel industry, that we had to have the free trade agreement to save the steel industry.



I am wondering if you can answer, what went wrong? What is the cause of the problem in the steel industry today?

**Mr Marczynski:** There are a number of problems that have nothing to do with the free trade agreement.

**Ms M. Ward:** It was supposed to save it. That is why I am asking the question.

**Mr Marczynski:** The US market is very important to our industry. Right now, because of the exchange rate, it is hard to access that market. You lose your edge right there.

The Americans have supported their industry quite well there. They have laundered them through the chapter 11 bankruptcy proceedings. They have the concessions they need from their state and local governments, from their employees and they are very competitive right now. Unless the dollars drops in value, it is very difficult for our industry to access that market.

But just worldwide, globally, there is an excess supply of steel out there. The steel industry cannot get the price increases. Our costs keep going up. It is just a continual squeeze. That is the fundamental problem.

There is a glut of steel out there. There are a lot of Third World countries that have come on the scene building steel mills, not worrying about the economics of supply, demand, price and competition. They just subsidize them. They wanted a steel industry and they dumped all this steel into North America. That is the problem.

The free trade was going to help us maybe to access that market in the States that was very important to us.

**Ms M. Ward:** It was planned to be sort of a saviour, the dollar.

**Mr Marczynski:** Yes, the dollar is the big thing right now.

**Mr Carlos:** If I could add something from a personal perspective, this would be from a Dupont perspective. We made certain investment decisions anticipating the free trade agreement or something like it would come some day, and we were very successful in competing with other investment decisions around the world and put some investments in place. Now we are bearing the fruits of them. If you look at the numbers that are coming out the pot right now, even though many of our markets are very weak right now our strongest segment is in fact in exports. We have tremendous increases in our exports primarily to the US. That was because of investment decisions we made a number of years ago.

Now we want to be able to compete for the next series of investments. That is where the problem arises. As you look at the global pie for investment, we have to compete with everyone else out there. As the barriers to trade fall down and tariffs fall down and other things fall down, the strategists' focus goes right to the tax system and it becomes a very important, strategic aspect of the decision-making process.

The steel folk and the chemical folk have done very well competing with the best in the world in developing technology, converting technology into good-quality

products, servicing our customers very well, but if a system keeps increasing and the bite of the fruits of labour are not piled back into plants, machinery, equipment and new technology we might as well just join the caravan going south.

**Ms M. Ward:** So you think we do not really have completely free access, there are some barriers.

**Mr Marczynski:** The whole problem there with Canadian steel producers trying to ship their products south—we had modernized our plants, we were very efficient, etc. The US steel industry was really bleeding in the 1980s. The fallout there was much more dramatic than what we experienced in the 1981-82 recession. There were massive plant shutdowns only because they did not stay world class like the Canadian steel industry. The Canadian steel industry did much better than the US in getting out of the recession, so the Americans got very protectionist and they wanted to put voluntary restraint agreements on the Canadian steel industry. We lobbied against those effectively. Washington agreed to exempt Canada from the voluntary restraint agreements but we needed the free trade agreement to help sort out some of the trade disputes to leave the door open for us to continue shipping into the States. What has taken over now are broader economic forces that are not necessarily determined here in Canada and Japan, but over the world. Why do we have the dollar where it is? Why are interest rates so high here? It is a very complicated thing we are dealing with.

**The Chair:** We are really running behind time. We could sort of wrap this up.

**Mr Owen:** May I make one comment, please, Mr Chairman. We are distressed about what is happening in Algoma, for example, no doubt at all about that. We do not want a live example of the efficacy or the primacy of manufacturing within the framework of a community. What we are saying is, and I have said this to Mr Christopherson, we are going to see downsizing within the manufacturing community. I did make that comment there.

However, what I have to say is that the service sector off from the manufacturing more than offsets some of the job losses within the framework of the manufacturing, and this is what we have to look at as the weak creator and as the service organizations which are clinging together with the manufacturing community. It is interdependence; it is not a dependence, it is an interdependence. I think Algoma, sad as this may seem, is going to show that the interdependence is there and not only will we lose the 7,000 jobs if Algoma does go, but you will find all of the other peripheral jobs for the service industry, the small retail stores and all this, belly up as well and that is a sad state of affairs. This, I do believe, shows the primacy and the wants of future wealth development within the manufacturing community.

**The Chair:** Okay, I think we should wrap up with that and any further questions maybe you could address later. Thank you for your presentation this afternoon.



## TORONTO BOARD OF EDUCATION

**The Chair:** I would like to call on the Toronto Board of Education; Beare Weatherup, chair; Tam Goossen, vice-chair; Ann Vanstone, chair of the education finance committee, and Ron Trbovich, comptroller of finance.

Thank you for coming. Again, we would like to try to stick as close to the half-hour presentation time as we can. Now the onus of responsibility for that is on the committee members as it is on you to give expedited answers. All right?

**Mr Weatherup:** We do appreciate the opportunity to present our views to the standing committee here in respect of the forthcoming budget of the Ontario government. It is safe to say that our board and our ratepayers are very optimistic because during the provincial election campaign we know very well the New Democrats were lying—

Interjections.

**Mr Weatherup:** Well, we still like it. They said: "New Democrats propose raising the provincial share of education costs to 60% over five years, providing a solid base for a better education system and lifting some of the load off property taxes. The cost of this initiative over the next two years would be \$1.5 billion."

Premier Bob Rae in his 30 August 1990 response to the chair of the Metropolitan Toronto School Board, in response to a questionnaire we sent him, said, "New Democrats would seek to restore Metro's funding to at least the 1981 level of 21%." He added that: "An NDP government could increase the per-pupil grants. Given that 90% of the public school boards spent more than the ceilings set by the provincial government, New Democrats believe that it is time to establish more realistic ceilings."

During the election campaign, Premier Bob spoke about a number of other issues, the most important of which was the question of integrity. We feel that the Toronto Board of Education and its ratepayers expect the premier and his government to keep that promise and allow time for a full consultation with the educational community.

In taking this position, we acknowledge that the provincial government is faced with an unforeseen deficit, a deepening recession and the resulting increased public expenditures such as welfare and falling provincial revenues because of increased unemployment. Given this reality, we expect the Treasurer to set a budget that is fiscally responsible while at the same time addressing the needs of those most directly affected by the recession.

As school trustees, we will also be prudent in setting our budget, being mindful that many of our property taxpayers are also facing harsh economic circumstances. In fact, I was at a meeting this morning where a young Portuguese student, who is 15, was requesting permission to leave school. Her father was unemployed, they face a combined mortgage bill and tax bill of \$3,000 a month. There was nothing I could do. We wanted to keep her in school but she felt her duty towards the family was to go out and work.

I think that when you have to go through that on a regular basis, you realize the pressure the property tax puts on people, and it does not measure their ability to pay. We do have a concern and we are sure you are concerned when you look at the budget.

**Ms Vanstone:** In November 1989 the then Treasurer of Ontario announced an 8.7% increase or \$363 million more in operating grants to school boards for 1991. That announcement was very short on specifics and for good reason. The Treasurer knew that the transfer payment was inadequate and the school boards across the province would be expected to increase their mill rates on average by 12%, and school boards did so in response to the limited or no funding for inflation, enrolment growth, the employer health care tax, pay equity and other costly provincially mandated initiatives. You have heard school boards complaining about this for the last little while.

The Ontario Public School Boards' Association has stated that Ontario school boards need at least an 11% increase in operating grants from the provincial government, or \$500 million more in 1991. Anything less will surely result in a third straight year of double-digit mill rate increases across Ontario.

Education cost escalation factors are well known. Province-wide enrolment will increase by 1.9%, necessitating the hiring of more teachers. Average teacher contract settlements are approximately 6.3%. Inflation is in the order of 4.5%. The federal goods and services tax will increase school boards' expenditures by 1.2%. Increased immigration will increase English-language instruction costs, which will likely rise to more than \$55 million. Pay equity calls for a rise substantially over the next two years, including the appropriate funding of internal equity issues. All of these factors and more will apply in the trustees' consideration of the Toronto Board of Education's budget.

For example, each year Metropolitan Toronto receives nearly 25% of all immigrants who choose Canada as their new home. Many of these families and their children become part of our school communities in the city of Toronto. The cost in teachers' salaries alone to deliver English-as-a-second-language programs is in excess of \$20 million a year. As immigration accelerates in response to federal initiatives, these costs will continue to rise dramatically. Without federal and provincial support, Toronto property taxpayers will continue to fund these extraordinary costs.

When the 1991-92 transfer payment announcement is finally made, we expect the Treasurer of Ontario and the Minister of Education to fully disclose the impact of the increase in operating grants on school board mill rates. In the interests of public accountability and integrity, it is the least we can expect from the provincial government.

In the past two years, the province has contributed less than three fifths of 1% to the Metropolitan Toronto School Board's budget. Metro's budget in 1990 amounted to approximately \$1.9 billion. The Toronto board's share of that budget was \$516 million. Last year, the Toronto board held its mill rate increase to 10.8%—the provincial average was 12%—but only after significantly cutting its operating and capital budgets. It is likely for 1991 that Metropolitan



Toronto public school boards will again receive no financial operating grants or capital grants. In other words, the entire cost of public education in Metropolitan Toronto will continue to be borne by the property taxpayers of its eight public school boards.

It is the position of the Toronto Board of Education that the province has forced it to rely upon the property tax as the sole source of revenue to fund its educational programs and services. This provincial action discriminates against the public school taxpayers of Toronto. It is unfair. We agree with the new government that the general legislative grant formula is broken. It was never intended that the cost of education should be solely borne by property taxpayers. The funding of education requires a major overhaul.

Toronto taxpayers have contributed hundreds of millions of dollars to the province's consolidated revenue fund in the form of consumption and income taxes. The province has a duty to return some of these taxes to Toronto's public education system in the form of operating and capital grants, and through a mechanism that provides direct relief to property taxpayers.

It is recognized that meaningful reform of the education finance system will take time, effort, consultation and support. The Toronto Board of Education is fully committed to this effort and wishes to participate fully with the province by contributing its ideas and expertise. In the interim, the Toronto Board of Education must deal with its property tax system, which is undergoing a number of developments and which is beset with serious problems.

**Ms Goossen:** The Metropolitan Toronto School Board has the largest tax base of any school board in Ontario. Relatively speaking, we are commercial-assessment rich. To a limited extent, this allows the MTSB to have the highest per-pupil expenditure in all of Ontario. So it should surprise no one that the Toronto public education system is considered one of the very best urban education systems in all of North America.

Toronto's public education system has many achievements. For example: pioneered the benchmarks program that documents a student's progress to parents; a leader in curriculum development in respect of race relations, drug and AIDS education and other program areas; initiated junior kindergarten and full-day senior kindergarten programs; pilot project on destreaming; started heritage language and ESL programs; initiated day cares in schools; developed a successful special education program; introduced inner-city programs; maintains high standards for schools that are safe, clean, healthy learning environments; developed alternative schools and programs throughout the system to meet the individual needs of our students.

We are very proud of the achievements of our students and teachers, but it should be made very clear that a quality education system comes at a price. In this regard, every expenditure of the Toronto board is geared to achieving excellence in the classroom to graduate students who are critical thinkers, lifelong learners and major contributors to the social, economic and political fabric of this province.

In order to sustain our programs and achieve these results, we must be assured of an appropriate level of funding. We have grave concerns about our property tax base,

our only source of funding. Toronto's property tax base not grown at the same rate as the provincial average of to 4% for the past few years. To illustrate that, between years 1986 and 1990 the growth varies from a low of 1.2% to a high of 2.8%, and in 1990-91 the growth was 0

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While new assessment dollars have been added to tax rolls, these increases have been eroded through loss in commercial and industrial assessment appeals. Residential property taxpayers in Toronto have had to bear increased taxes that otherwise would have been borne by corporate ratepayers who successfully appealed their assessments. In any event, real growth in Toronto's property tax base has been less than the provincial average, and our residential ratepayers have been hard hit as a result. It is interesting to note that, with coterminous pooling, Metropolitan Roman Catholic Separate School Board's assessment base grew by 6% in 1989-90 and 9.8% in 1990-91.

Beyond this, our property tax system is riddled with inequities. For example, property taxes on rental apartments range from three times to six times the average burden on single-family homes. Commercial and industrial properties are assessed at a lower rate of market value than apartments. The bottom line is that property taxes on apartments are passed directly through to tenants as part of their rents. It is a hidden and unfair form of taxation.

Metropolitan Toronto council's market-value-based assessment scheme is scheduled for implementation in 1993. In the Toronto Board of Education's view, the scheme is badly flawed and will further exacerbate inequities within and between property classes. The Toronto Board requests that the Ontario government take no steps to implement Metropolitan Toronto council's reassessment scheme, but instead that it be referred to the Fair Tax Commission for study, along with other proposals to reform property taxation in Metropolitan Toronto.

This recommendation is premised on the legitimate assumption that public education will have a representative on the commission. It should be noted that the Toronto Board of Education has the largest stake in the property tax base, whereby education costs account for more than 50% of the property tax bill levied in the city of Toronto. This represents the fact that our board has not been consulted by Metropolitan Toronto council nor the province in the development of our property tax system. We expect that to change.

The Toronto Board of Education is very concerned about the number of successful appeals of the property assessments of large corporations. These corporations are able to afford to hire expert consultants and lawyers to reduce their property tax contributions. These successful appeals over the last dozen years have had the effect of reducing the overall tax burden of the commercial property tax base and shifting the taxes forgone through successful appeals to all other ratepayers.

This trend must be stopped, indeed reversed. For the first time, the Toronto Board of Education has appealed the property assessments of ten large commercial enterprises in the city of Toronto as being assessed too low. We intend



prosecute these appeals to restore their assessments to levels where these corporate property owners are paying their fair share. The SkyDome, the Toronto Star building, the Eaton Centre, the Toronto-Dominion Bank towers, the 100 St. Canadian Place and the Dufferin Mall are some of the properties whose assessments we have appealed.

As well, the Toronto Board of Education views with concern the property tax burden on low- and moderate-income families, seniors and other people on fixed incomes.

The province provides two measures to help offset the burden of property taxes on these groups: the Ontario tax credits claimable as part of the federal income tax return and Ontario's property tax grant for seniors. Since the previous government took office, the Treasurer had not adjusted the Ontario tax credit provision to reflect the increasing magnitude of the property tax in personal budgets. While the Ontario property tax grant for seniors has increased in 1985 from \$500 to \$600, today this amount is woefully inadequate.

The Toronto Board of Education strongly recommends that this Treasurer increase to realistic levels, without delay, the Ontario tax credits and grants for seniors and low- and moderate-income families.

**Mr Weatherup:** In an article in the *Globe and Mail*, January 1991, the Minister of Education indicated "that the government wants to find a way of controlling discretionary spending by local school boards as part of its move to 60% funding. 'The government must be sure that we have some control over our costs. We can't be saying that we'll go ahead and increase up to any amount that they decide to spend.'"

The Toronto Board of Education is concerned that in moving the province's rate of support for the cost of education from its current level of 41.7% to 60%, the government may attempt to introduce two measures that will significantly undermine a local board's autonomy. One such measure is the imposition of province-wide expenditure controls. A second one is likely some form of province-wide pooling of corporate assessment.

Expenditure controls were imposed in the early 1970s and did not work. They were crude instruments, insensitive to local conditions and needs. Similarly, pooling corporate assessment and redistributing it among the assessment-poor boards in the name of achieving 60% provincial rate of support is a sham similar to that now imposed by Premier Vander Zalm in British Columbia. Corporate property taxes are local taxes and should remain with local municipalities and school boards. By reducing a school board's access to its local tax base, local autonomy and accountability are severely compromised. Beyond this, the quality of education programs in Toronto and its ability to be innovative will be seriously eroded.

In pursuing a fair education finance system, we should be seeking new solutions. There is sufficient evidence that the old ideas of draconian proportions, such as expenditure controls and pooling, do not work. We must first agree on the fundamental principles and objectives of an ideal education funding system before attaching ourselves to those outdated ideas.

**Ms Vanstone:** The next section is on capital needs of our school board. You will note at the top of page 8 a list of projects that will be coming up in the next few years. It is usually considered that the city of Toronto is a fully developed city. In the last several years, most capital programs have gone to Scarborough, which has been a growth board, and most of Metro's capital dollars have gone that way.

You will note under "A" a list of new developments in the downtown Toronto core. I would point out, although it is not pointed out here, to give you some idea of the scope, we are creating in downtown Toronto a community the size of Barrie. Barrie has 14 elementary schools and several secondary schools. Those are just new developments.

The board has also defined substantial accommodation requirements in various schools across the system which at a minimum will require 117 rooms by 1994. These are critical needs. Average annual requirement over the next four years, \$5 million.

**All-day kindergarten:** That was an announcement by the province a couple of years ago. We knew we did not have room. However, we have done an assessment of it now and you will see we have identified a requirement for 133 classrooms. If we do not do the all-day kindergartens until 1994, the number of classrooms would increase to 200. In a three-year phase-in period, \$33 million.

**Child care:** A 1989-90 evaluation of the child care facilities has identified 16 elementary and 19 secondary schools which do not provide child care. Bill 30, which may receive royal assent in 1991, would permit boards to provide child care facilities, presumably out of property taxes as well. For an initial phase, it is proposed that schools without child care facilities introduce this program over a two-year period at an annual cost of approximately \$9 million. In addition, there are 80 child care facilities presently located in substandard spaces—for example, basements, play spaces and storage areas—which should be relocated. If this was addressed over a five-year period, the annual cost would be \$8 million.

**School sites:** In order to address the number of spaces required, it is estimated that approximately 50 acres will be required. This is estimated at \$325 million, and if a 10-year program of land acquisition was contemplated, this would require \$32.5 million a year.

Our buildings are very old in the city of Toronto. That is becoming the case in all of Metropolitan Toronto. A modest renovation/replacement program would include a complete replacement every 100 years, together with major renovations every 35 years and minor renovations every 20 years, at a cost of \$19.5 million, \$12.3 million and \$3.9 million. Therefore, the total annual requirement for this item would be \$35.7 million. This would not address the current backlog, estimated at \$240 million. To address this backlog, a yearly requirement is estimated at \$6.8 million.

If both of the above programs were introduced, the requirement identified to the board in 1988 for additional funding for maintenance needs would be addressed, that is, \$6 million annually. It will also address the funding currently identified in the Metropolitan Toronto School Board



capital building program of roof restructuring and thermal upgrade under the category "advanced renovations."

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**Building codes and safety standards:** For the past few years, projects such as fire safety improvements and barrier-free access have been identified on the Metropolitan Toronto School Board capital program with a requirement of approximately \$3.5 million. It is proposed to continue these initiatives, with an average yearly requirement of \$3.5 million.

The annual capital requirement for the next two years is \$180.1 million, declining slightly thereafter for the next eight years. The total capital program for required pupil places is \$968 million, together with an ongoing need of \$46 million annually for renovation, replacement and building code and safety standards.

**Mr Weatherup:** In conclusion, the public education system of this province is the only system charged with providing universally accessible educational opportunities for all learners, regardless of their ethnic, racial or cultural backgrounds, social or economic status, age, individual exceptionality or religious preference. This mandate is crucial in a democratic society. This mandate requires special recognition for public education within the province's education funding scheme. The government must understand that it cannot separate the question of financing education from the issue of quality programs without destroying the very fabric of our public education system.

Since 1975, we have seen an annual decline in the province's rate of financial support for public education in Metropolitan Toronto. For too long, the local boards, the local property taxpayers and parents have quietly worried about this trend. The Toronto Board of Education will work with the province in developing a new funding model for education. In this challenge, we will be open-minded and responsive to new ideas. We will participate in the consultative process and press for positive changes. We will always keep foremost the ultimate purpose of this exercise: to meet the individual needs of all our learners.

**The Chair:** Thank you. I have a question from Mr Phillips.

**Mr Phillips:** I appreciate the brief. It is carefully crafted. As I have said to other education groups, I am very familiar with this because I was hounded during the campaign. These promises were made and I think they resulted in the election of several provincial members and therefore the defeat of others. I see Mr Silipo, who is probably very anxiously awaiting the announcement of the general legislative grants and what not, particularly given the year that it is, with the election coming up and things like that.

My question really, I guess, is two- or three-fold. Yesterday there was a group here and there was a Metro trustee here actually, speaking—

**Ms Vanstone:** It must have been the Ontario Public School Boards' Association.

**Mr Phillips:** Yes. I will ask all my questions, because the Chairman normally only allows one question. I will try to get all my questions—a multifaceted question. One is the 21% to the Metro public board. I am interested that

you do not, in your brief, expect a lot of progress to be made this year in that. I am just wondering what the expectation of the Toronto board is of the timetable for getting to the 21% for the Metro board.

The second thing is that the minister was here the other day announcing that the 60% funding that they are going to move to will include capital and teachers' pensions. She announced that that is the platform she ran on in the election. That was a totally different definition than the debate I have had with my colleagues, or my opposition. I am just wondering what the Toronto board's interpretation has been, because as I say, that will come as quite a surprise to the teachers and the taxpayers, who were expecting some significant changes.

I guess the last question is just, I appreciate your comment here on ceilings, because that was the third kind of surprise to me, that it would be 60% of something the minister determined as opposed to 60% of what the school board would say.

Just in closing, in case I do not get a chance to say it, I have said this many times publicly. The city of Toronto school board has really made a major contribution educationally in Canada. There is no question of that, in my opinion. I think I have said that perhaps to certain of you. If you look at the accomplishments of the Toronto school board, it is an innovative board, it has some courage, and it has had for at least 20 years that I am familiar with. So I wanted to compliment the board again when I have the chance to do so publicly, because I think it has historical and continues to do a first-class job. But maybe you will return to those questions, Mr Chairman.

**Mr Weatherup:** Okay, I will try to answer the first part. I guess the 21% and the 60% are linked because, to some extent, we have used those numbers to get to what we want, more of a process we want to get to, and that is until you decide what the fundamental principles and objectives of the school system are and what you want to do. It is very difficult to set. We argue around programs, but what I would say, you have to set—and in our brief, I think it is on page 9, we talk about what the fundamental principles and objectives of the education system are. After you do that, then you can set grant ceilings that vary from jurisdiction to jurisdiction.

Clearly in Toronto, where you have a big inner-city population and an ESL population, you might have a different ceiling than you would have in another jurisdiction where they might not have those needs, or have different needs. So there is a sort of a process.

Then you go into the grant ceilings and after that you can get into the percentages question. But I think the goal and this is certainly the direction we are asking the province to go in, is to look at those things, because we are interested in the British Columbia solution where Premier Vander Zalm said: "Yes, we'll give you 60%. We'll simply take away all your commercial assessment and we are going to give it back to you." We are not particularly interested in getting back what we already have, when in fact our arguments are that the province should be looking at the entire system of education funding when it looks at that and then get to setting realistic grant ceilings.



ually meet the actual local need, and that is where the out from local boards is very important.

The question of whether it should be 21% of 60% or % or 62% is very difficult to comment on, as long as these sorts of principles that I have talked about are taken into account.

**Ms Vanstone:** Yes. Picking up on that, I would agree. Whenever you say 60%, it begs the question, "Sixty per cent of what?" Twenty-one per cent begs the question, "Twenty-one per cent of what?" Every group that has lost funding of education—and you certainly know, Gerry—the last many years has said there has to be a realistic appraisal of the ceilings or indeed what should be included in the costs of education in the province of Ontario. Certainly, as Beare says, the costs are very different. In Red Lake, the school boards need to have teacherages and that happens throughout the north. We do not need that in the city of Toronto, but with a large multicultural population we have to operate heritage language programs.

So the needs differ and the kind of ceilings that are envisaged have to be site-specific, if you like. I was surprised as well to see the minister's comment about 60% including capital and teachers' pensions. At least with the former government it was only future pensions that were suddenly lumped in with the operating costs. Now we have capital in there as well.

When the government did reach a high of funding that I believe was 61%, not 60%, and it was before I was in this business except as a parent, it was operating. It did not include capital and it did not include teachers' pensions. It was 60% of operating, so if one is going to go back to the 1940s or even think about it, he has to be comparing apples with apples, not apples with oranges. We started changing the apple into something else a year ago and now it seems to be changing even further into a completely different fruit.

**Mr Phillips:** I want to just comment on the answer.

**The Chair:** Excuse me. We have four more presentations and they are all half an hour.

**Mr Phillips:** I do not think there is any way that you will get away with it and I think in one sense you have to spell it out very clearly. It was extremely clear within your documents. You have the 41.7%, which did not include pensions, did not include capital, so it is going to be very tough, I think, if I can be completely honest with you, for the new government to argue anything different.

**Mr B. Ward:** But you are willing to work with us?

**Mr Phillips:** No. I am sensitive because the Premier was called a liar in the campaign.

**The Chair:** Excuse me. I am going to rule this out of order because this is not the time or place for politics. We have a lot of presentations to go and I would like to thank the presenters for coming and making this presentation.

**Mr Weatherup:** I would like to thank you for having us and we look forward to working with you.

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# ONTARIO ARTS COUNCIL

**The Chair:** Our next presentation is the Ontario Arts Council, Nalini Stewart, chair.

**Ms Stewart:** Thank you, Mr Chairman. I would like to first introduce the people I brought with me. I will start with Daryl Novak, director of administration; Norman Walford, executive director of the Ontario Arts Council, and my board member, Michael Rayner, a partner with Deloitte and Touche who is also a former Comptroller General of Canada. I mention that so that if you give us more money you can feel quite safe that it is in good hands.

Thank you very much for inviting us to do this. I do not think we have ever done this before—I certainly have not—so we are very pleased to be here. I have no formal brief, but we did give a short handout that I believe was given to all of you this morning. What I would like to do is just talk about the general arts environment and then leave lots of time for questions. I would also, before I start, like to thank all of you for the mention of the Ontario Arts Council in the throne speech, which was like a message of hope through the whole arts community, and I would also like to say how pleased we are with the NDP policy paper, *Work of Art*, which is a bit old. It was written in 1984, however we still agree with all the sentiments and I hope that you people will continue with that.

I talk about the arts environment today in 1991. The Ontario Arts Council is 27 years old. In 27 years, Ontario today has more than 50% of English-speaking artists right here in this 100-mile area around Toronto.

Our writers are on international best-seller lists all over the world. Our dancers are also considered the best all over the world. Seven, eight years ago, even five years ago, nobody saw our films, and starting about four years ago our films started winning awards in Berlin and at Cannes and we started being noticed. The National Film Board's shorts were always noticed, but our feature films have become also in the top league.

Our theatre is in the top league. I go to a lot of theatre and I saw one recently, *King Lear*, that had come from a top company in England. I had been to Stratford just the week before and seen *Macbeth* and I came back and I thought our company was really just as good. Mr Phillips has heard me say a lot of these things before, but I continue with this message because I believe in it so strongly. Because the best English-speaking artists are in Ontario, we can feel proud of what they are doing. The money that has been put by governments, in the past 27 years by the Ontario Arts Council and 30 years with the Canada Council, not one cent of that money has been wasted, because we have seen the results.

They have added value to our lives in so many other ways. They have certainly helped the economy because every time people go to an arts event, they go to a restaurant before, they take taxis and they hire baby-sitters or they pay parking, so it helps the economy.

Our artists are better educated. We have in our package here—it is not in that handout but it is a package here that



we will give you—some figures that they are better educated than the average person in Ontario but they earn less than the average person in Ontario. In terms of what is happening in the world today with identity and free trade, our artists have defined who we are in terms of Canadians thinking up an identity for ourselves. Our artists tell us who we are and they tell us who we are in a really eloquent way.

In terms of the artistic community, any time artists move into an area, the value of that area goes up. Now, which other group in society do we have where every time they move somewhere, whether it is Yorkville or Queen Street or whatever, because they create original products, they improve the area they are in?

Having done all this for us, today the artistic community is suffering really badly. In 1988 we presented a report to the government saying that we needed more money, and maybe we asked for too much money at that time, but everything that we predicted is coming true now. One by one the theatre companies are closing, our dance companies are cutting back on their number of weeks, our artists are leaving Toronto. Many of you will say: "That's fine. That's okay if they leave Toronto. Let them go to Flesherton," which they are, or Hamilton. That is okay, but many artists are also leaving the profession and that is not okay, because if they are no longer artists because they feel they just cannot support themselves, then I think that we really lose quite a lot.

So what I am trying to do is talk to members of Parliament, trying to talk to people one-on-one as much as I can and say to them that we at the Ontario Arts Council are very aware of the economy. We follow it all very carefully and very closely. We know all the problems with the government, but what we are saying is, the amount of money that the arts need compared to other sectors is really not very much.

We are asking for an increase of \$11 million in our base for this year. I will take you through in a second. I know it sounds like a lot and I know that the deficit is large, but when you look at the value added and when you look at the national identity and when you look at how important it is and how it helps the spirit and how you need bread—this is a cliché—but you need bread, you need roses. But we do need all these things and more so than ever now in Ontario and in Canada. I think we need to know who we are, and it is not wasted money, because for every dollar that goes into the arts, there is \$10 of volunteer effort that goes into the arts.

The artists themselves subsidize half of what we do and they give back so much. I am not trying to put any other sector of society down, but at the moment we do not have any artists on the welfare rolls and we do not find them in mental hospitals and we do not find them in prisons. You do not find them in places where they are not helping society. I really strongly believe that artists give so much to our society that the little we do for them, we gain so much back.

Maybe before I go through this I would like to turn over to Michael Rayner and maybe he can say a few things.

**Mr Rayner:** Perhaps just to supplement some of the comments Nalini has made and speak from the perspective of a board member who has been with the arts council for just under a year, I thought it would be helpful for members of the committee to understand a little bit about the way in which the arts council operates in taking public funds and disseminating them over 1,000 organizations over 1,600 individual artists and, frankly, touching the lives of many Ontarians, not just because of the work of those organizations and individual artists but through programs in the schools that are widespread, etc.

The council exists and plays an arm's-length role. Essentially, we have created in our body politic an institution which can take public funds and ensure that they are distributed fairly and equitably without political influence. The function of the board of the arts council, indeed of its staff, is to ensure, in fact, that the public money that is entrusted to us is distributed in a fair and equitable way across the arts community, particularly the professional arts community.

I would like to say, having observed this system now for a little over nine months, that I think it is an extremely well designed system. Governments that provide money to the arts council can do so with confidence, knowing that the process that has been established over the years in the council is an extremely good process, that we use a process of juries, of peer appraisal, within the arts community to ensure that excellence is rewarded and awarded grants by the arts council, and that the sorts of biases one might worry about in the disbursement of public funds over large numbers of organizations, I think, are effectively eliminated. The combination of a vigilant board and a very highly competent staff ensures that this process works smoothly.

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Nalini has alluded to the tremendous needs of the arts community at the present time. One of the things I have been most surprised by, I suppose, and impressed by in this short period of time that I have been associated with the council is just how much suffering, in effect, is going on in this community. Every board meeting I attend we are briefed on the number of arts organizations that are either closing or about to close, the number of individual artists who are leaving the artistic community and moving into jobs where they are unable to pursue their art.

Many people in Ontario in this recessionary time are facing crisis, and a new crisis for them. The artists and the arts organizations in the community in effect are facing a considerably deepened crisis, but they have really lived through crisis for the last 10 or 15 years. If one examines the funding pattern, the distribution of funds by the government through the arts council, you will see that there has been no matching, if you will, of funding by government with the cost of living and inflationary pressures in our society.

So we have come to the government with what appears to be an unusual request for much more money than we had in the past as part of our base. But essentially the argument we put is that we are trying very hard to redress



at one could in fact characterize as the wrongs of the t.

We urge members of all parties to consider carefully plight of this artistic community, which we believe to in a true state of crisis. We urge you all to think of the multiplier effect that Nalini alluded to that comes from the work of the artists in our community—the number of ancillary industries, related service businesses and organizations that are linked with arts organizations and individual artists—the way in which money spent through the arts multiplies and provides for employment and wellbeing for Ontarians.

**Ms Stewart:** On 23 January there was an article in the Toronto Star that talked about the crisis in the arts, and in this article the writer said that the cultural safety net is crumbling really quickly at the moment. Again, I have said we have predicted this in two of our reports. One was the theatre task force study that we did called Places Please a year and a half ago in which we named the theatres that could be in deep trouble, and they are at the moment.

If we do not help these organizations now, these organizations will fail and those people will go on the welfare list. So in a way each is equally bad. It is really important for the Ontario Arts Council to be able to look after our arts organizations. I never said that every organization deserves to be kept alive for ever and our board has never said that either, because some should just be allowed not to exist there. For our best organizations, we really have to make sure that during these tough times we help them and do everything we can to keep them going, because we just cannot afford to go back.

Most of the arts organizations did not participate in or get the riches from the boom here that Toronto went through in the 1980s. Some people made a lot of money, but nobody in the arts made a lot of money during the 1980s and we have a lot of catching up to do.

**Mr Rayner:** If I could just supplement that, I think another element of the possible failure of some major arts organizations relates to the tremendous loss of investment that occurs if you allow something that has been built over 10 or 15 years to suddenly disperse. The time to rebuild the talent and bring people together and create the synergy and be able to offer again what was lost is just incredible. The investment that is being made in major and even minor arts organizations in simply assembling the talent and providing the space is incredible. If we lose that, if any one of them goes and the people involved are dispersed, we lose a great deal. We lose many years in terms of the ability to replace that activity.

**Ms Stewart:** This is in our brief. We fund 1,000 organizations across Ontario. We give money to 1,600 individual artists. We do everything in two languages. We are very aware of the whole multicultural complex of Ontario. I talked to Mr Phillips a lot for years when he was in that job. We have some of the best programs. We did them very slowly and very carefully. Now those programs are being looked at not just in Canada, but we have inquiries about those programs even from countries in Europe. We have one the artists in the workplace program. We are now

looking at new ways to reach the people of the first nations, because they are very keen that they be part of the system in every way possible. We are looking at programs in the black community.

We have a very open organization and our board and our staff always try to be one step ahead so that we anticipate things that are happening. Right now, for example, we know that there are certain communities that have become very strong in terms of wanting to make sure that they have equal access. We already anticipate that. We welcome them in and we talk to them and say, "Okay, how do we do it?" So as an organization, we have tried to reach everybody in this province. We do not just sit in one place and feel satisfied that we have all the answers.

Norman, do you want to take the people through the priorities?

**Mr Walford:** Just very briefly, the last page in the package you have outlines the priorities over a three-year period for the Ontario Arts Council. They deal specifically with some of the areas that have been mentioned by Nalini and Michael, and that is the stabilization of the whole community, starting with increases in the amounts of individual grants and the success rate of granting to the artistic community.

The stabilization of funding to key arts organizations: Nalini has mentioned that we have quite a number of arts organizations and prices at the moment, so it is an effort to increase the percentage of contribution that the Ontario Arts Council makes, recognizing of course that the funding of the arts in this province and in Canada has always been a partnership between many different elements. It involves community support. It involves support from private individuals and from the corporate community. We would be looking to have our money become a leveraging effect; in other words, if we put it in first, then quite often it is much easier for the companies to lever money from other sources.

We have many organizations across the province now which would, except for the lack of money, be eligible for operating support on a continuing basis. This is a problem which runs throughout every discipline, so that we would require funds in order to be able to give them ongoing operating support.

One thing we feel is very important in terms of creating a whole person through the educational system is the question of how often and what quality of experience a child has in the educational system. Right now, it is extremely low. They may have one experience with a major cultural institution from the time they enter school until they leave high school. We would like to devote more of our resources to ensuring that children of school age have the experience of artists and arts organizations within their school setting.

The last part—it is by no means least—is the whole question of the expansion or accessibility by different sections of our population to artists. That will be found in different types of audience-building techniques; also, reaching out to communities that may not be familiar with the kind of work we do and the kind of support that is available so that all sectors of our society can have access.



I just want to conclude by emphasizing that we work right across the province. Nalini mentioned the concentration in Toronto. That is true. But we do support community arts councils, symphony orchestras, theatre companies and other activities right across the province. In every single community you could find something that the Ontario Arts Council has supported at one time or another.

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I also want to say that recognizing that to some degree—the old axiom that God helps those who help themselves—we are engaged in a lot of activities that are designed to help arts organizations become better managers of their own destinies. That certainly involves things like help with planning, professional development for their managers. We have also set up a very small research function in order to provide them with materials with which they can make better arguments with their own municipalities or with the corporate community.

The final thing I would like to say is that one of the reasons we present for increased government support of the arts is always that the strength of the artistic community will have a profound effect on the creative and innovative capacity of the entire society. I do not think people really understand the connections. Quite often they see artists and arts organizations as off to one side, providing a certain kind of value to society.

If you look at it very closely, the inspiration for our industrial designers, people who are in various kinds of businesses, quite often are very seriously affected by what is going on in the artistic community, because it is basically the role of the artist to be fundamentally innovative and creative; that is, to think of new ways to do things and to ask questions that are crucial to the creative development of our society.

I think it is like the R and D of the whole creative spectrum in society in that its weakness will also weaken other aspects of that and some of the things that we realize from other sectors.

**Ms Stewart:** We would be pleased to answer any questions.

**Mrs Sullivan:** I am quite interested in your presentation today, having gone through the five-year plan earlier to some extent and having also been to school with at least, I think, a couple of you and having chaired a performing arts centre myself. I am quite aware not only of the role of arts groups in defining and expressing our community, but also of the economic impact that flows back into the community.

One of the things that I am wondering if you covered here or could speak to is that very frequently we think about arts organizations as appealing to large population groups. I do not think you have spoken particularly to the smaller interest groups that are a very significant and important part of maintaining an artistic commitment, if you like. Where do you fit that into your budget plan in terms of maintaining the smaller organizations, as well as the larger ones? I think you have spoken to a certain extent about the community outreach, but you might want to—

**Ms Stewart:** Of the 1000 organizations we fund, about 20 could be considered large organizations. The other 980 would be in the category that you speak of. Certainly in communities across Ontario, for example, Thunder Bay—am I answering your question right? There is a symphony orchestra—

**Mrs Sullivan:** Just helping the argument along.

**Ms Stewart:** —and there is a Magnus Theatre and fund it, and the same in Sudbury and the same in Sault Marie and the same in London, Windsor, all the places have been to. When people think of the large organizations, they are the big five, as we say: the symphony, ballet, opera, Stratford and Shaw. But that is only five, then there may be another 20 like Tafelmusik music or maybe Tarragon of Canadian stage. But then the ones across Ontario are community arts councils, community orchestras, community theatres, summer theatres. We have about 10 summer theatres. How many summer theatres? Eighteen, something like that? Every community has an art gallery.

That is what our base is in all those little organizations—the big ones get the profile—plus there are all the volunteers in each group or organization. We really reach everywhere in the province.

**Mrs Sullivan:** You might also want to underline your current base budget and the increment that you are asking for in specific dollar terms.

**Ms Stewart:** The current base is \$34.6 million, even though on this page here, it says \$38.6 million, but our base is that—

**Mr Walford:** It is all here. It is at the bottom of this page.

**Ms Stewart:** We have a base of \$34.6 million. We have \$1 million added in multicultural money, but that ends March this year. We would like to have \$11 million added mainly to keep our organizations alive.

**Mrs Sullivan:** You are really talking about \$45 million as a commitment of the Ontario community to the arts in the province.

**Ms Stewart:** Yes. This has come down a great deal since 1988, because when we did our original five-year plan, which was based on a needs argument, we went across Ontario asking people what was needed in the arts. In view of the recession and the economy, we have cut back substantially.

**Mr Walford:** I wonder if I could add also, in terms of the incredible increase in interest and the number of organizations that have been formed over, say, the last 10 years, that we find ourselves in a very difficult position because our funding has not kept up with both the demand and the number of organizations, just the general population increase.

We have a lot of inequities between when an organization actually developed and the availability of funds in a given time period. One of the things this plan is designed to do is to try to correct some of those inequities. In other words, some of the organizations that have developed in communities during the leaner years we would now like



ing along to an appropriate level. That is one of the problems that underlie the thinking of this.

**Mr B. Ward:** I know we are getting behind schedule. I will be very brief. I met the chairman there it seems a long time ago. Life moves ahead at Queen's Park. I do not pretend to be an artist, as I stated in our conversation. However, I do have a lot of respect for the arts. My wife is the artist of the family. I try to draw or—I will tell you, you do not want to see the stuff.

The question I have is that our government is very big on consultation, co-operation, partnerships, etc., so that we are as a government, and I am sure all parties can assist in that—would you be willing to work with us in partnership and co-operation so that we as a government have a better understanding of what the arts community's needs are, and that when funds are allocated we know they are going to the best possible programs so that we do not waste any of the tax dollars? Would you be willing to work with us in that sense, forming a partnership and co-operation?

**Ms Stewart:** Sure. I have already started that. I have already met Mr Christopherson, Margery Ward, you. I am not thinking. Three of the people in this room.

**Mr B. Ward:** You already know Gerry.

**Ms Stewart:** I have requested an appointment with you too.

**Mr Phillips:** You are spending your time in the right place.

**Ms Stewart:** You just have not responded yet.

**Mr B. Ward:** But you would be willing to work with us in a co-operative manner.

**Ms Stewart:** Of course. Our board feels that we are stewards of public money. The cheque that we get is—we are trustees. Our processes are totally open, although we are an arm's-length agency. We are doing the same work as an arm's-length agency. We bend over backwards.

**Mr B. Ward:** Myself, I will be relying on your recommendations since obviously I am not an expert in the artistic field. I will be relying on your expertise and recommendations. I look forward to working with you.

**Mr Christopherson:** I was going to acknowledge how impressed I was that you managed to get to my office so quickly after the election. I am overwhelmed at how quickly you move. I find that you have been around all over the room here. That says a lot about your determination, your own personal commitment and also your lobbying skills, I might add.

As I mentioned to you in our discussions, I was fairly involved at the local level, being on our city's arts advisory committee recommending to city council ways in which we could do exactly the things that you are encouraging us to do at this level. To take it to a provincial level, I wanted to ask how successful you have been in having municipalities adopt arts policies. I ask that mainly in recognition of the fact that my sense, having served a number of years on that subcommittee, was that there really had to be a commitment at the local level, a hands-on commitment, not so much the dollars, although that is part of it, but the commitment.

I am wondering how successful you feel you have been across the municipalities in Ontario and how that might, if you will, underscore your points with us.

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**Ms Stewart:** We have not gone to everybody, but we have had Thunder Bay pass a resolution supporting the Ontario Arts Council's bid for more funding. It is easy for municipalities to pass a resolution if they do not have to put up money themselves. They got everybody together and they passed this resolution. It was great and it was a good PR gesture. But then, are they going to step in to save the Thunder Bay Symphony Orchestra or Magnus Theatre North-West?

**Mr Christopherson:** I really meant an arts policy as opposed to just a resolution.

**Ms Stewart:** Okay, policy. Windsor has had an arts policy and Hamilton has had reports and talked about it. London has talked about it. We talked to the mayor of London. Ottawa, because it is also the national capital, has things happening in different directions. Do you want to add something?

**Mr Walford:** Perhaps it would just help to say that one of the organizations that we have been supporting the formation of is—the community arts councils of Ontario have formed an association. One of their absolutely principal issues and priorities is to go back to the membership, i.e., the 45 or 50 arts councils from around the province, with exactly what you are saying. They realize that the only way they are going to be more successful is to have a stated policy within their community, within their municipality. Again, it is the leveraging effect of that, that if they do it means their community is committed; it means therefore that the local businesses may become more committed and it has a snowball effect.

Indeed, there has been some of the success. There are quite a number of communities that now have policies, and where they do not, it is certainly one of the objectives of this organization to ensure that they do.

**Ms Stewart:** I remember talking to the mayor of Windsor and the mayor of London about this. What they would like to do, and of course nobody even has the money to do it, is to have economic impact studies, because they are both convinced that the arts do help their cities. I wish that we had the money. I wish I could hire Allan Gregg or Martin Goldfarb to do a survey of how the arts help different cities.

**Mr Sutherland:** Sounds like a great project for the MBA schools in both those cities to take on.

**Ms Stewart:** That is an excellent idea, because we have facts and figures but they are really not up to date. I am embarrassed. I would not use statistics unless I felt that they were absolutely viable, but I think that it would help us if we had that.

**The Chair:** I am going to move along to Mr Phillips and I am going to ask him to do it in one minute.

**Mr Phillips:** Question and answer?

**The Chair:** Question and answer.

**Mr Phillips:** I think I may already have my answer, and that was that I am familiar with the million-dollar multicultural fund and how effective that is and how that is I think working to ensure that everybody has access to the council. I now know it expires in another month and a half or two months.

**Ms Stewart:** Yes.

**Mr Walford:** That is part of this request.

**Mr Phillips:** Yes, I see that. I could not quite figure it out until you explained.

**Ms Stewart:** But we would use more than \$1 million in that community; we would use \$2 million.

**The Chair:** Thank you for coming and thank you for your presentation.

#### MUNICIPAL FINANCE OFFICERS' ASSOCIATION OF ONTARIO

**The Chair:** We would like to move along now to the municipal finance officers. We start to recognize people as they recur. I am being forced to play the heavy. I am going to restrict your time to the allotted amount of time and I will try to get the members of the committee to have their questions reflect the time allocation. If you would begin, please.

**Mr Rinaldo:** Let me introduce myself first. I am Joe Rinaldo. I am the chairman of the Municipal Finance Officers' Association of Ontario as well as the regional treasurer and commissioner of finance for the region of Halton. With me, as you met earlier today, is Bob Richards, who is the vice-chairman of the association, as well as the treasurer of the region of Peel. With us also is Heather Bell, our executive director of the association.

I would like to express our appreciation for giving us the opportunity to give you a different perspective on municipal finance officers and municipal finance issues prior to your establishing the budget. Bob Richards has co-ordinated our submission to you and will be presenting it to you. With that, I would like to turn it over to him.

**Mr Richards:** I would like to just echo Joe's sentiments. Thank you to the standing committee for the opportunity to contribute to the development of fiscal and economic policy in this province. The budget that you are deliberating is perhaps the province's most important policy instrument, and public consultation on both the process and content of the budget is an important feature of the parliamentary system of government.

At this point in my remarks, it is probably a good idea to provide a brief overview of our mandate and membership of the organization I am representing. The Municipal Finance Officers' Association of Ontario or MFOA is the professional association of Ontario's municipal treasurers and senior financial officers. MFOA features 400 individual members from more than 200 municipalities across the province and is considered to be the authoritative source of opinion on municipal finance issues. MFOA has appeared before past incarnations of this committee and has worked closely with the Ministry of Municipal Affairs on a variety of municipal finance issues.

Enough about us. Let's get on with the issues.

As we stated earlier, the Canadian economy is in recession, particularly acute in the province of Ontario. People and businesses are indeed hurting. During such recessions, all levels of government, we feel, are more obliged to help restore economic growth and provide a safety net for those individuals who require assistance. All levels of government are also obliged, as a result of the disciplines imposed by the market—and, you see, we as treasurers—to operate within a fiscally responsible framework.

Fiscally responsible governments realize that long-term persistent government-sector budget deficits encourage inflation, invite restrictive monetary policy from the Bank of Canada and reduce fiscal flexibility in meeting emerging new policy needs. Governments that are truly committed to the welfare of the public understand the importance of sound fiscal management.

In drafting its position on the 1991 budget, MFOA tried to balance the twin obligations faced by all levels of government, the obligation to deliver economic and social assistance to the public and the obligation to operate within a responsible fiscal framework. Meeting one of the twin obligations at the expense of the other simply does not do justice to notions of good government.

MFOA therefore requests that no new cost-shared programs be introduced in the 1991 budget until provincial and municipal governments are satisfied that existing cost-shared programs are being adequately funded.

Having drawn attention to this overriding need for balance, we would like to put forward a few ideas aside from that one.

The first one deals with the word "disentanglement." The current provincial-municipal financial relationship is characterized by a confusing array of unconditional grants, conditional grants, cost-shared programs and special-purpose bodies armed with unaccountable taxing powers. For instance, the standing committee should be aware that the province's unconditional grant program has been roundly criticized in recent years by both the municipalities and your own Provincial Auditor. The conditional grant program now features over 100 individual grants to municipalities, each with its own complex form. Special-purpose bodies armed with no electoral accountability are now responsible for more than 50% of the property tax levied by most municipalities; by many, at least. This entangled reality serves neither the province nor the municipalities.

It is important to put the preceding statement and rather strong wording in context. The current provincial government and the current Minister of Municipal Affairs inherited this situation. To its credit, the current provincial government has served notice on the need for financial reforms based on a reallocation of roles and responsibilities between the two levels of government, a concept referred to as disentanglement.

A process for disentangling the provincial-municipal financial partnership is currently being developed around the long-awaited Ballinger-Hopcroft report, as it is referred to, half of whom is still alive and well. This report is expected to be released this spring and it is still the si-



st important governmental issue on the agenda of many municipal decision-makers.

MFOA views disentanglement as the guiding principle that should govern the province in any contemplated budget initiatives that directly impact on municipal government. It is worth noting that disentanglement need not result in financial windfalls for one level of government at the expense of the other. Disentanglement can be revenue-neutral in its attempts to match funding responsibilities with the same level of government that makes the key policy decisions for a given program area. In short, it is all about political accountability.

Let's talk about timing for one moment. In order for us to budget effectively at our level, it is imperative that governments be provided with early announcements on transfers, payments and unconditional grants. We understand that the new provincial government requires a certain amount of time to decide on the appropriate allocation of the billions of dollars transferred each year. In this sense, the expected mid-February announcement by the Treasurer is not terribly surprising. It is also, however, not terribly helpful. In future years, MFOA is hopeful that transfer payment announcements by the Treasurer will manage to precede the fiscal year for which they are being announced. Mid-November to us seems reasonable. Our fiscal year, by the way, is a calendar year, unlike your own.

The Minister of Community and Social Services has received and endorsed the broad findings of PMSSR, the Provincial-Municipal Social Services Review. This review of all social service responsibilities shared by the two levels of government seeks to simplify the financing and administration of the various programs. In the eyes of our association, the key recommendation of PMSSR is the recognition that general welfare assistance benefits should be removed from the property tax base and funded entirely from provincial revenue sources.

I will not repeat myself from this morning. I think it is the record that GWA is not a popular item with the municipal sector.

During the legislative session before the 1990 election was called, Bill 229 was introduced for first reading. This bill would have extended and modernized municipal borrowing powers. The bill was the result of a three-year consultative process involving officials from the Ministry of Municipal Affairs, the Treasury, municipal officials and private sector investment dealers. It actually goes beyond what I started working on this in 1980. The reforms have been long overdue.

Bill 229 was the first major rewrite of municipal borrowing and investing legislation since the 1960s. Passage of Bill 229 would have brought Ontario municipalities into the mainstream of modern money market practices while preserving the regulatory integrity of the Ontario Municipal Board in monitoring the accumulation of municipal debt.

We fully support the provisions of Bill 229 and request that it be reintroduced in the upcoming session of the Legislature.

We are interested in working with the province to develop new sources of revenue to relieve the growing financial burden placed on property taxpayers. To this end, our association has recently released a report on the imposition of a gross receipts tax on cable and other utilities making use of municipal rights of way. We require the support and participation of the province in its search for innovative approaches to funding municipal services in Ontario. We would ask the standing committee to consider the notion of a 1991 budget discussion paper to deal with the topic of new municipal revenue sources. If the standing committee thinks such a discussion paper could be useful, perhaps a recommendation to the Treasurer to commission such a paper would be appropriate.

I hope it is not lost on the members of the standing committee that nowhere in this brief did MFOA merely step forward and ask the province for more money. We feel this type of intergovernmental relations is simply not realistic given current economic realities. Instead, MFOA urges the standing committee to view municipalities as real partners with the province, partners who can stand on their own two feet in many situations. Municipalities balance their operating budgets every single year. In recent memory, the province has done so once. The challenge for the province is to listen carefully, act when help is needed and stand back when intervention is not justified. MFOA hopes that the province's 1991 budget takes this advice to heart.

**Mr Rinaldo:** We would be more than happy to answer any questions.

**Mrs Sullivan:** As I said in a previous presentation, I am again surprised that the question of waste management was not raised, particularly with Mr Rinaldo at the table. Why are you not calling for \$25 million for a landfill?

**Mr Rinaldo:** Halton has gone through a lot in waste management. We started in I believe 1974 when the region was established, went through a first process and did not get anywhere. We have gone through a second process where our tipping fee went from about \$12 a ton to \$156 and really should have been higher than that.

I swore that in my next position I will go into a municipality that does not have a waste management problem. I have gone through two of them, one in Hamilton-Wentworth and one here, and I can assure you that I hope this is my last one. I still feel that municipalities should be able to fund the waste management and should have responsibility for it. Just to make it clear, what Halton was asking for was to take advantage of the program that you have initially put forward that the province has in place today in terms of assisting in the construction of the new facility.

**Mrs Sullivan:** You mentioned one appropriate type of municipal revenue source that may be new and I am interested that you bring it forward now, given the kind of feeling that is on the ground that maybe property taxes are awfully high and a budget paper at this point in time may be something that the Treasurer might be reluctant to look at. But what other sorts of revenue sources would you be looking at?

**Mr Richards:** There is a wide range and there are many that we do not even know about yet. For example,

we, for one, have thought about municipal lotteries, something which we are excluded from, and hotel taxes. The tire tax to me seems like a revenue that should be a municipal revenue. As I said earlier, we have tire disposal left at the municipal level and it is being collected at the provincial level for I am not sure what.

The corporate concentration tax was an idea hatched from municipalities, taken by Treasury and used for provincial purposes. It is a clear incursion into provincial revenue-raising. Surely if anyone is responsible for the servicing of high-rise corporate concentrations of buildings—it is a municipal road that is getting there, it is a municipal sewer, it is municipal water, and the funding is going to the province of Ontario by the corporate concentration tax.

We are looking for that kind of energy and ingenuity either to be unleashed for us or to be allowed to unleash it ourselves. We have the ideas; we just do not have the legislative framework to allow us to use them.

**Mr Rinaldo:** In the past we have offered to assist the Ministry of Treasury and Economics to write your budget. They have declined so far. We would be more than happy, if you wish, as one of your suggestions, to put that to work with them on that area.

**Mr Richards:** On the waste issue too, I think that municipalities are not looking for handouts on this issue. The best thing for the province of Ontario to do in this case is to get out of the way.

**Mrs Sullivan:** I suppose the reason that I asked the question is that Halton is eligible for \$25 million in grants and they have not been forthcoming. I just wondered why it was not on the table.

**Mr Rinaldo:** Obviously that is a local issue and we were talking about the broader issues. If you have a program in place, we would want to take advantage of it, but if you make it clear that that is our responsibility and say income maintenance is your responsibility, we would obviously plan accordingly. That is what we want to do. We want to have the ability to plan our community when we know what the ground rules are. In the past few years, the ground rules have changed so dramatically that it is hard for us to plan responsibly for what is coming, what we have to provide for.

**Mr Sutherland:** Mrs Sullivan asked the question I was going to ask.

**Mr B. Ward:** I will pass.

**The Chair:** Very good. Thank you for your presentation.

1620

#### ONTARIO NON-PROFIT HOUSING ASSOCIATION

**The Chair:** The next group for presentation is the Ontario Non-Profit Housing Association: Debbie Kraus, executive director, and Cassie Doyle, president. You may begin.

**Ms Kraus:** I am Debbie Kraus and I am the executive director of the Ontario Non-Profit Housing Association. I would like to start by just giving a brief introduction about

our association. The Ontario Non-Profit Housing Association was established in 1988 by municipal and private non-profit housing corporations in Ontario. We believe access to decent, appropriate and affordable housing is a basic human right.

The goal of ONPHA is to build a strong non-profit housing sector and to promote the production and management of high-quality, affordable housing across the province. We now have 375 members and these members own more than 48,000 units, representing 55% of all municipal and private non-profit housing under management across the province. Our members come from urban and rural areas, small and large communities from right across Ontario. I would like to turn it over now to Cassie Doyle, president.

**Ms Doyle:** I am from the city of Ottawa, in case you have not seen anybody from outside of Toronto today.

**The Chair:** We are particularly happy to have you here because we have only had one or two other presentations from outside of Toronto and I think we need that perspective.

**Ms Doyle:** Good. I wanted to say how much we appreciate your giving us this forum to present today. I am sure you have had quite a mishmash of presentations, so I would just ask you to focus on non-profit housing for the next 28 minutes.

The starting point of our recommendations to you before you is the very serious shortage of affordable housing in the province of Ontario. What is critical to our association is housing for low- and moderate-income families and individuals.

There is, I guess, a traditional view that non-profit housing or socially assisted housing is targeted to those who have the highest need, those on GWA, FBA or senior citizens' pensions. But what we recognize is that there is a growing number of working people in Ontario who require assisted housing, whose needs cannot be met in the home ownership market or the private rental market. In fact, in many parts of the province you could have minimum wage earners who still would require assistance if they need family housing. That is really the starting point of our recommendations.

What we wanted to emphasize to you today is the importance of timing to us, particularly in your consideration of the 1991-92 budget. We wanted to put forward in the strongest way the need for the inclusion of funding for non-profit housing development in this budget that you are considering now, in the first instance, because of the need in the province.

From the indications from your own Ontario Housing Corp, there are 45,000 people on the waiting lists that are administered by the public housing authorities. The non-profit sector is the only new housing that is housing people off those lists. Other indications show that over one-third of three renter households in the province are paying an inordinate amount of their incomes on housing and that is pushing them into a poverty situation. We want it in the budget to the need and particularly considering the current economic circumstances. Housing is one of the first things



hits people when one income earner or the sole income earner loses his or her job, so we would like you to keep that in mind.

The second thing is that non-profit housing is an excellent source of job creation or maintaining jobs in the construction industry particularly. Our research shows as does that of our sister organization, the Co-Operative Housing Association of Ontario—together we have found that for every housing unit that the province funds in the non-profit sector, it produces at a minimum two full years in the building trades. That maintains employment in the building trades. As you are aware, the building trades are really in a serious slump right now and non-profit housing in many parts of the province is the only thing that is going to be built over the next 18 months, so job creation potential is an important thing to keep in mind for this budget.

The third is the efficiencies around producing non-profit housing in this period. We have an infrastructure coming out of the Homes Now program which was incredibly successful. We have an infrastructure of developers and non-profit organizations across the province that are ready to build. We know that because of the economic downturn, we can pick up land or projects at a price which we could not do two years ago. Our tender prices on new construction are coming in in some parts of the province 25% less than they were 18 months ago, so I think it is something to keep in mind that now is the most efficient time for the province to build something that in the long run is going to continue to serve the needs of low- and moderate-income households.

Essentially, I guess the key point in today's presentation is to ask that you include funding for the development of non-profit housing in this budget year. This will signal the start of the province committing itself to stable and predictable funding for non-profit housing development. That is what the resource groups in non-profit, community-based organizations across the province want from the province now as an indication that there will be funding in this budget and that there will be a continued commitment that we do not have these kind of runoff programs that everyone gears up for and then we run out of units.

There is the potential out there now to build. The time is right, the need is high, so we would ask that you keep that in mind in this budget year. In the long run, we will be relying on the province and looking to the province to honour its commitment that was indicated in *An Agenda for People* of building 20,000 units a year. What we basically want to see in this budget is an indication that that commitment will start.

That is the first part. I would like to turn you over now to our vice-president, Colin Gage, who is from Victoria Park Community Homes in Hamilton.

**Mr Gage:** I would like to address that any new program or any new initiative by the government must be very receptive to the diversities between both urban and rural differences. All too often, we see a lot of internal differences between ministries when there has got to be a co-operation of ministries, specifically the Ministry of the Environment versus the Ministry of Housing. When we get into rural areas and also into urban areas, we find that

all too often this bogs down the process and we cannot respond quickly enough because it is caught up in myriad red tape with the two ministries.

Another issue is that any new development or any new program must be receptive to innovation as far as design goes. We are very fully cognizant of the cost implications of building and what we are striving to do is to build a very high quality product, but also to maintain our focus on making sure that it is architecturally attractive, that it fits into the community, that it is received well in the community and also managed well in the community. All too often in the past we have seen non-profit housing tarnished by what I would say is mismanagement and misdesign.

The new programs should also be very cognizant of the acquisition and rehabilitation of existing buildings. Right now we are seeing that the older rental housing stock is deteriorating at a very quick rate. We do not find the private sector responding very quickly to rehabilitate these housing units to a level that we would find acceptable so we are finding that the people who occupy these units are within our, if you would, catchment and they are not being addressed properly. We find that they are living in squalid conditions and because of the current economic times the landlord cannot respond effectively to rehabilitate the housing units. Once again, I must emphasize that the acquisition of existing housing stock will allow us to develop on a product that is already there and has proved itself over time.

The next area I would like to focus on is the province's Housing First policy and the provincially owned lands. We fully endorse the province's position that 35% of all provincial land under the Housing First policy will be dedicated to affordable housing. We would like to take that a little bit further and suggest to you that any small infill or smaller lots be designated totally or solely for non-profit housing and that when any larger tracts of land are being subdivided, the non-profit housing sector be very much involved with the planning process of those lands with the Ministry of Housing in order to ensure the inclusion of these lands for non-profit housing.

The rationale behind this is that we see this as a continuing, ongoing supply of affordable housing, if you will, and it will continue in that fashion, rather than holding a price at a set level for five years, selling it initially or building it initially for a set price and then in five years releasing it to the open market where inflation and the market forces will take over. We see that if we are allowed to move in with non-profit housing, it will retain that tenure for 35 years. I leave that for your consideration.

1630

**Ms Frenette:** My name is Sybil Frenette and I am from the city of Kitchener. I work for their non-profit housing corporation and I am also treasurer of this organization, so I have something in common with yourselves in that I watch the money of my organization like you watch the money of the government.

I wanted to talk to you about two things. One is the provincial policy statement on housing and the other is



financial vehicles that our organization feels can be put in place to make non-profit housing more cost-effective.

First, in the area of the provincial policy statement, we endorsed strongly the recommendations of the provincial policy statement on land use planning for housing that was approved last year. Our problem with that policy statement, though, is that it does not have the teeth that it needs to be implemented. We see it as an opportunity; it is full of very good ideas. However, we do not have the mechanisms of accessing the recommendations contained in that policy statement.

For example, one area that is of particular interest to us is a statement that 25% of all lands under development should be set aside for affordable housing. One problem with that statement is the definition of "affordable." It differs very dramatically from the core-need thresholds that are established under the non-profit co-op and OHC programs, so there is not a matching between what is considered affordable under that policy statement and what is true affordable housing. We would like to see that area worked on and amended and expanded.

The other area of the affordable policy statement is that 25% of the land be set aside in some manner. It cannot be simply a policy statement in an official plan document that is a wish list. There has to be a means of obtaining that 25% affordable land. We have some suggestions that we would like to present to the government and work with your staff on creating those vehicles for allowing that land to be set aside.

One example is that school boards in Ontario are allowed to reserve land for school construction. We would like to be able to reserve land for non-profit construction in new plans and subdivisions. That way people moving into a new subdivision would know that the land is there, is going to be developed for non-profit housing, and hopefully we would not get the kind of community resistance we have been getting to development and it would be more acceptable in that the land would be noted as being for non-profit housing.

We would also like to see mechanisms such as cash in lieu for land that is set aside for non-profit housing. I can give you another example: for park land dedication, municipalities are allowed to have cash in lieu when they want land reserved for park use. A similar mechanism could be set in place for cash in lieu to be donated to a bank of funds that could be then used to buy land for non-profit housing or the land itself could be set aside through subdivision agreements for non-profit housing. Our organization has many ideas such as this, and we would appreciate the opportunity to work with your staff on these ideas.

In the area of financing, similarly to land use initiatives, we can also propose some financing initiatives to make the non-profit housing program more cost-effective. One area is index-linked mortgages. This is a program that is currently operative with the co-operative sector. We worked last year on a think tank with the co-operative sector on a capitalization subcommittee and we had, as I say, a think tank and a number of ongoing meetings with the co-op sector to propose financing means to bring the

non-profit program into a manner that is more cost-effective. As I mentioned, the index-linked mortgage is an idea; land banking is another. We have received some funding to pursue these initiatives and, again, we will be meeting with your ministry staff to propose our recommendations.

In summary, what we want and what we are here to ask for is to ask you to keep non-profit housing as a priority for this government and to ensure that funds are set aside in this year's budget for non-profit housing.

**Mrs Sullivan:** I think this is a very useful brief because you have brought some new ideas to the table. I want to ask if you have discussed at all a recent court decision relating to the Burlington situation and you see that as having an impact on the provincial statement on land use.

**Ms Frenette:** I have looked at the Ontario Municipal Board decision and I think Burlington went a little bit far. Again, it was a matter of trying to find the mechanism. They were struggling to see, "This is the provincial policy. How do we then access those lands"—in that case it was condominium units—"for affordable housing?"

There has been very little direction from the province on how to implement that policy statement. Burlington gave it a try and went too far. They overstepped the bounds of normal planning and they got their knuckles rapped by the OMB for doing it. But it is only through those cases that we are going to learn how to access affordable land.

**Mrs Sullivan:** But you feel that in your own communities you can still proceed under the guidelines now, that there is more specific legislation or whatever, even given that ruling?

**Ms Frenette:** No, I do not actually. I think that is the problem for us, that nobody knows exactly how we can access those lands. They are all trying their own mechanisms. I suppose, to answer your question, we will continue to try until we are told we cannot.

**Ms Doyle:** I was just going to add that in the city of Ottawa we have been quite successful for a number of years in requiring land to be set aside for non-profit housing at subdivisions, at the point of approval of subdivisions and this was much further along a site plan. There are some technical considerations around that Burlington decision that—

**Mrs Sullivan:** Certainly that is where most of our communities have been most successful.

**Ms Doyle:** Yes, at subdivision.

**Mrs Sullivan:** It is getting them right on the ground.

**Mr Christopherson:** It is a pleasure to see my former colleague and good friend Colin Gage here today along with one of his colleagues. I agree with the previous speaker. It is an excellent presentation.

As Colin will know, I was the chair of the regional task force on affordable housing up to the time that I was elected to Queen's Park, so I am aware of a lot of the issues that you are dealing with at first hand and the difficulty with finding mechanisms for the 25%. When I



ked with the region, they were still on the task force, n, grappling with the official plan amendments and to actually incorporate some of the desires in the plan hat it would have some meaningful impact down the l when these things are tested. I know the kinds of problems that are there and we have inherited those problems. I can assure you that we appreciate the willingness to k with us in partnership to try to find solutions for n. None of them are easy, and I do not think any party gested they were easy. We have been given the responsibility of finding those answers and we look forward to king with you on them.

I was particularly interested, Colin, to hear you refer to overlap where the Ministry of the Environment was than supportive at a critical time. I gather you might referring to the project that we had in Hamilton on ford North, right near a major factory, where some help n the Ministry of the Environment may have made the erence. I am not sure if it was at the OMB or not. Was

**Mr Gage:** I think it is verging on the OMB now.

**Mr Christopherson:** Verging, okay. Regardless of v that turns out, there is no question that the case would e been strengthened if the Ministry of the Environment felt a little more comfortable in setting its priorities. It is not that they did not, that they backed away from the ising being the higher priority, but the fact that they just ked away completely from making any recommenda- t, which left the fight to go on. It is wasting a lot of time one way that really is not profitable for anyone. So I uld hope that there will be more emphasis on that.

You are the first group that I am aware of that raised t issue and, of course, having seen it in my own com- nity, I am aware of that example. There may be others, olving other ministries. I think that is an issue that we uld be looking at with you to ensure that there is good ordination with other ministries and that there is sup- t, where possible, and that we are articulating clearly priorities, so that we do not get into those kinds of ations.

I would just close by again thanking you for your ex- lent presentation. I appreciate it.

**The Chair:** I have one quick question of my own. I ve been very much interested in what the average cost is square foot of building the units that you build, land luded, if you can. I know it is probably not the same oughout the province, but can you give a ballpark num- ?

**Mr Gage:** Land included? It is difficult when you in- de land. Land is a large variable.

**The Chair:** All right. Let's try land excluded first.

**Ms Doyle:** In Ottawa now we had been up as high as out \$72 per square foot for residential construction. Our ent tenders have been coming in at about the mid-60s. ose are mostly concrete high-rise buildings.

**Mr Hansen:** It think it was somewhere in the ighbourhood of between \$40,000 and \$65,000 per unit. I guessing now.

**The Chair:** What is the average square footage?

**Mr Gage:** About 900 to 1,000 square feet, depending on where it is.

**Ms Doyle:** There is quite a range in terms of the price depending on the land, I think. It is a big variable.

**Mr B. Ward:** Locality and lots of variables.

**The Chair:** That is very useful. Thanks for your presentation.

**Mr B. Ward:** Well done.

1640

#### ONTARIO SCHOOL TRUSTEES' COUNCIL

**The Chair:** We have our last presentation of the day, the Ontario School Trustees' Council. We have Chuck Yates, president, and Lorraine Gandolfo, president of l'Association française des conseils scolaires de l'Ontario—my French is not that great; I am glad my French teacher is not here; and Betty Moseley-Williams, president of the Ontario Separate School Trustees' Association.

**Mr Yates:** Thank you, Mr Chairman. We are outside the Toronto area too. Betty is from North Bay, Lorraine is from Brampton and I am from Cambridge.

We were aware of the fact that you have not had the opportunity to look at our submission and yet we are also aware of the fact that you have had a long day, so I would like to suggest that we will highlight our submission and then, if you do have any leisure time, I would hope you would look at our submission in its entirety.

**The Chair:** We have to review all of the submissions before we can make our recommendations.

**Mr Yates:** We are pleased to have this opportunity to appear before the standing committee on finance and economic affairs to offer Ontario School Trustees' Council advice to the Legislature in preparation for the 1991 budget. The council's recommendations for the 1991 budget were more difficult to develop than in previous years, given the timing of the government's announcement of the increase in transfer payments to public sector partners, including schools, hospitals, municipalities, colleges and universities.

The pre-budget consultation process represents an important and necessary opportunity for the Ontario government and MPPs from all sides of the Legislature to discuss with the education community, in an open and accountable way, education costs and the level to which education should and deserves to be funded by the people of Ontario.

We take this opportunity not to point fingers and make accusations, but to genuinely work with the provincial government to embark on fiscal policies and social priorities that will ensure fairness for Ontario taxpayers and equality of opportunity for all Ontario school children in both English and French schools.

In 1990 the provincial government increased school board operating grants by 8.7% over 1989, bringing total 1990 provincial operating grants to \$4.5 billion. In 1990, provincial grants represented approximately 40% of school board expenditures, excluding capital expenditures. The



remaining and much larger 60% was funded by school boards through taxes on local residential, farm, commercial and industrial properties.

In recent years, a number of new, almost hidden costs have crept into all school board budgets. These costs have little to do with educating students. They include the employer health levy, pay equity, GST, the CPP and unemployment insurance increases, occupational health and safety requirements and obligations and increasing costs of ensuring environmentally safe and secure schools. Council is saying that the provincial government must provide sufficient resources to enable school boards to be as committed to meeting broader social and public policy priorities as boards must be to providing the best educational programs and services.

The Ontario Public School Boards' Association has estimated that in 1991, on a system-wide basis, the costs of pay equity, occupational health and safety requirements, environmental protection, the health tax and the GST will consume 4% of the increase in grants over 1990. This means that the first \$200 million of the increase over 1990 will just cover these costs. Education-related costs, such as programs and services and teachers' salaries, will increase by an estimated 9%. Consequently, a 13% increase in operating grants in 1991 will be required to allow boards to meet the dual obligations of providing quality education and meeting their obligations as employers.

We hope the committee will agree that high standards of health and safety for school staff, environmentally healthy classrooms and playgrounds for our children and pay equity in the public sector cannot and should not be traded off against the need for high-quality educational programs and services. Whatever the added burden of costs in English schools, it is that much greater in French schools because of the unavailability of materials, thus resulting in added costs.

The Ontario School Trustees' Council strongly urges this committee to recommend to the Ontario government that through the Ontario budget or by other special grant programs, provincial financial support for schools be increased to reflect not only new and ongoing educational programs and services, but also the additional non-educational costs. Council further urges that the financing of education be equitable for all students. We urge the committee to recommend to the Ontario government that pay equity costs of school boards be funded from the consolidated revenues of the Ontario government or from the public sector pay equity fund announced by the Ministry of Labour.

The province recently announced an income protection program for those who find themselves victims of layoffs and plant closings as a result of the recession. We applaud the government not only for its willingness to show compassion, but also for allowing victims of the recession to maintain their dignity. In many cases families of modest means become distracted and disjointed as they scramble to make ends meet. Children and young adults are not immune to these problems and often the problems at home emerge in the school system in one way or another. The mandate for our schools has grown and may continue to

grow as governments look at new ways in which schools can address social and adolescent problems earlier on in a more preventive manner. As the new government at Queen's Park contemplates new challenges and goals for schools, particularly in light of the social consequences of recessionary times, the council must urge caution for at least three main reasons.

First, expanding the school system's mandate, which probably involve a renewed financial commitment on the part of the provincial government. It is not enough to develop new programs or services. They must be implemented. Staff must be trained or retrained, facilities must be adequate and goods and services must be purchased.

Second, at what point does the continued expansion of the mandate of the school system leave less time to adequately deal with the basics of learning—reading, writing and math? While the role and goals of our schools broaden, the length of the school day does not. There must be proper planning and we must resist ad hoc stop-gap solutions which produce substandard results and consequently waste taxpayers' money. French schools for the most part are still in a catch-up situation even with respect to the basic elements of education.

Third, the council shares the new minister's stated concerns regarding the need to examine the entire range of social, community, provincial and local services currently in operation in the name of serving children. We ask this committee to recommend that no new mandates be placed on the school system without full review of the impact on the current goals of schools, the financial resources necessary to fund new mandates and the degree to which new mandates and services coincide with existing services directed to children and adults.

#### 1650

The \$700-million capital works program announced in the speech from the throne demonstrates that Ontario is willing to invest in itself, in its citizens and its labour force to help turn the tide of the recession.

One of Ontario's most significant capital requirements continues to be its schools. Of Ontario's 4,600 schools, 20% were built 50 years ago or more. To meet curriculum and program enhancements, requirements of technological education, energy conservation, environmental and occupational health and safety standards, many of these schools require an immediate renovation, repairs and modernization.

School boards' five-year forecast of capital requirements amounts to almost \$6 billion. In response, the province allocated \$1.5 billion over five years or \$300 million per year. While the province's capital allocations have increased steadily, there is still a significant shortfall and a backlog of new schools and badly needed renovation and repairs to existing schools continues to grow. Council is pleased, however, that the government has moved toward a multi-year capital grant commitment. This approach has enabled school boards and the province to undertake capital projects with considerably more planning.

For growing communities, it is unfair to taxpayer and children that their children must spend their entire school experience in portable classrooms without easy access



ool libraries, modern labs, vocational facilities and adequate indoor lunch and physical fitness facilities.

The OSTC urges the committee to recommend to the Treasurer of Ontario that school boards receive a sizeable allocation of the special \$700-million capital works program announced in the throne speech.

Council urges the committee to recommend to the Treasurer of Ontario that the government continue to honour its five-year, \$300-million-per-year commitment for school board capital grants.

We also urge the committee to recommend to the Treasurer of Ontario that annual capital grants to school boards continue to be announced on a multi-year basis so that school boards can both budget and plan their capital construction programs.

In the coming months there will be much said about financing of education, particularly as the Ministry of Education, along with the education community, begins the task of examining how best to improve our current system of distributing education grants to some 174 public, separate and French-language school boards throughout Ontario.

In addition, the government's Fair Tax Commission will undoubtedly be examining, among other things, the issue of property taxes in education finance. In 1991, 60% of education operating expenditures, almost \$6 billion, was financed by local property taxpayers out of their disposable incomes.

Families on low or modest incomes have been hit hard by a policy that ignores their ability to pay higher and higher local taxes for education. Families and individuals with fixed incomes and our elderly have been shouldering the cost of education, which continues to eat into their savings. Ontario's farm communities continue to shoulder an ever-increasing burden for education costs, regardless of changing economic conditions which affect their livelihood.

Trustees' Council is proud of its long and consistent record of bringing to the attention of successive governments the issue of provincial responsibility in education finance. The basic premise continues to be that by having the provincial government pay the greater share of education costs, be it operating or total costs, all taxpayers pay a fair share based on their ability to pay.

Council is pleased that the new government is very aware of the difficulties faced by local taxpayers. An agenda for People stated:

"New Democrats propose raising the provincial share of education costs to 60% over five years, providing a solid base for a better education system and lifting some of the burden off property taxpayers. The cost of this initiative over the next two years would be \$1.5 billion in property tax relief for Ontarians. We want to reverse the punishing increases in property taxes which hit seniors and low-income people especially hard."

How and when the spirit of this promise is met will be the subject of considerable consultation among the Ministry of Education and education stakeholders in the months ahead. It will also depend on the recommendations of the T.C. In the end, however, the provincial government must

guarantee that the spirit of the promise which it made to the people of Ontario will be met.

To conclude this presentation, the council would like to reiterate its emphasis on forging a new partnership between provincial and local levels of government. We must develop a partnership of accountability to ensure the effective and efficient delivery of educational services. The achievements of desired results of education programs and services had a better than average level of support from our taxpayers. A partnership of accountability includes, among other things, co-operation, consultation and participation.

First, to be effective in the delivery of educational services for our young people, school boards and the provincial government must place a priority on co-operation. It is difficult to promote co-operation, understanding and partnerships among those who work in and those who are served by the school system, if those who are accountable do not demonstrate leadership and co-operation.

Second, changes in provincial education policies and practices require enormous consultation with and among the educational community. No matter how well intentioned, change that is not understood by those affected is less likely to be successful.

Finally, we must encourage participation of all the stakeholders. School boards form the centre of implementation for education in communities throughout Ontario. Within the boards, schools become the next line of implementation right down to where implementation matters the most, the classroom. The process of forming legislation or developing fiscal and policy priorities such as we are engaged in doing today cannot be done in isolation from those who are accountable for the delivery of services or from those who receive and pay for those services.

I thank you for the privilege of being able to present this paper to you today. We will try to answer any questions.

**The Chair:** Thank you for your presentation. Our first question is from Mr Ward.

**Mr B. Ward:** A quick comment. If the provincial government moves in a direction to increase the transfer payments over a period of time so that the burden of the property taxes is relieved a degree from the education standpoint, what safeguards do you see would be in place so that school boards would not simply use that as new money, so to speak, and so that the economic burden would remain, but in fact the money would be used to shift, obviously, the funding percentage. Would you comment on that?

**Mr Yates:** I would have to give a personal comment on that, if I may. I would hope in the consultation that goes on between the provincial government, the Ministry of Education and the boards which would hopefully result in increased payments by the province, some kinds of ceilings would be put on what boards can spend per student. That is a dangerous thing for me to say, but I firmly believe that.

**Mr B. Ward:** That is your personal opinion?

**Mr Yates:** That is a personal opinion. That in itself would contribute towards equity of opportunity for all students in the province, because at the present time some boards have more access to assessment bases than other boards. I am going to get shot when I walk out of the room, but unless the provincial government does something to govern school boards or to correct regulations, then that will not happen, unfortunately.

**Mr Hansen:** Yes, it is sort of along the same lines as Mr Ward's 60% funding by the province. I have had some teachers, I have had some trustees and they have some concerns on construction costs. In other words, for each school we build we hire an architect, we spend time; we wind up by building them all different, but the end result is that we mainly teach, in a lot of the schools, if they are not technical schools, the same subjects. They have the same desks, they have the same lab equipment, whatever the case may be.

I come from a rural area and they cannot understand the architectural fees going into some of these schools. Why does not the province come out with a blueprint and say if it is a technical school, let's say it was 20 classes, that is 20 classes; if it is 30, the plan just expands for 10 more classes. Do you think you could comment on that one, because on the 60% funding it is still going to be taxpayers' dollars in the end.

1700

**Mrs Gandolfo:** I can only speak for the board that I am associated with, which is in Brampton, so close proximity to Toronto, so construction costs are very, very high. I agree with what you are saying. I think the subject, is the subject, is the subject, no matter where or no matter what the building looks like on the outside.

On the other hand, unfortunately, we live in a society that has become very comfortable with the way its houses look and the appearance. I only say that because in the board I am associated with, we have had several delegations from parent groups who are very concerned about what the school will look like, what it will do to the neighbourhood and to the aesthetics, what the neighbourhood will look like. They do not want the high-priced houses to depreciate.

I can also say that more and more boards now are going to repeat designs and are cutting that high cost for architects. I know that for the French schools we are building, because we are not building that many yet, that is what we are doing. We are going to repeat designs. If the school is there and it meets the function, it suits the purpose, those costs are circumvented by way of using the same design. I agree with that principle.

**Mr Hansen:** I did get one comment from one of my constituents. They said at least one thing they did a blueprint on was the portables. I will close with that.

**Mrs Gandolfo:** Those are repeat designs, no doubt.

**Mrs Moseley-Williams:** I am from Nipissing—North Bay—and I think people are very aware of the architectural costs, but the plans have gone to southern Ontario. It has only happened to two schools, but other boards have approached the architect and the plans have gone there for

schools. So I think it should happen and it could happen but there has to be a lot of work on it.

**Mr Hansen:** Another comment I would like to mention is that my son actually goes to school in Welland, which is a French-designated area. What has happened in Welland—and I see what you are saying in this particular thing. It is a French school, and they have received older schools and they are very slow at actually upgrading them to what the other schools are like. The one was built, I guess, about 1910 and that one was upgraded, one of the main French schools in Welland. So they inherited a problem.

**Mr Yates:** I can respond to the same thing on the board level. My board is in a Waterloo suburb. In the three or four schools we have built, we have used architects. We have built a centre core which the cities of Kitchener, Cambridge and Waterloo have contributed towards, which is used as a community centre also. Then we have put the remountable classrooms around, which can be moved as the school population 20 years from now grows down. They are not portables. They look like permanent structures, but they can be picked up and moved to a location 20 years down the road when you need another school. Then the centre core is left there as a community centre.

**Mr Hansen:** One more comment on the design. We have had quite a few conversations in this particular area. On construction of a school, a lot of people in my area and it is a rural area—look at the fact that the schools are used from 9 until 3:30, and some of these schools could actually be used as a recreational facility after hours and some of the design going into the school prohibits that.

These are just some comments. You know, you are a trustee. If you are going back out there and you are at one of these meetings, it would make it easier for the government if you come up with some solutions to some of the problems possibly.

**Mr Yates:** The schools that we design also, we make one area that we can seal off from, say, the classroom where the gymnasium, library and that type of area is not open to the public. All our schools, even the older schools, are open to the public through the entire year. But the newer ones are designed as a community centre in the core and then remountable classrooms built around it.

**Mr Phillips:** I would be happy to talk with you some day on that. I have had a lot of experience in that thing. I have a personal view on it. We are off the subject, I know, but I was chairman of the Metro school board, you probably know, and we had a program called student educational facilities, which was kind of cookie-cutter stuff, schools made in factories essentially, no architecture. I think we put schools in neighbourhoods that really were going to be there for 50 years and did not look right. It might have saved a maximum of 1% on the construction costs but probably lost it on some other things. So it is two sides.

That is why when we were looking at the northern relocation plans for ministries—the Ministry of Correctional Services, I think, has gone to North Bay—I was



supported very much the buildings because they are going to be there for 100 years and enhance the community even if it meant a little bit more money over the short term. I think that North Bay one looks good, personally.

**Mrs Moseley-Williams:** Oh, it is a beautiful building.

**The Chair:** This is all very nice, but can we focus a bit on the question then.

**Mr Phillips:** I am sorry. You have a recommendation, Mr. Sutherland, on 13%. I am just thinking of the short term now. We have got very good recommendations over the long term that will be very useful, but just in terms of looking at the short term, the recommendation on the grants lineup for the year of 13%, I think. My recollection was another committee group came in recommending 11%, but maybe my memory is going.

**The Chair:** It was 11%.

**Mr Phillips:** It is all a blur now. I was wondering on what basis the two groups might have reached a different conclusion.

The second thing is, you have mentioned your personal opinion on the ceiling, but I think we had another. We had a school board in here earlier today that took the opposite view in a fairly strong way.

**Mr Yates:** I figured they would.

**Mr Phillips:** You may or may not have been here at that time.

**Mr Yates:** No, I was not. I knew I was living dangerously.

**Mr Phillips:** I am just on the 13% versus the 11%.

**Mr Yates:** The 13% we were going on, we were using the Ontario Public School Boards' Association figures. They are talking about the \$200-million—at least the 4% for non-educational costs and an estimated 9% for educational services increases this year, and that is where we are up with the 13%.

**Mr Phillips:** So that reconciles the difference between the 11% and the 13%. Thank you.

**The Chair:** Was there another question?

**Mr Sutherland:** Actually, I just want to pursue this question about the portable schools and leaving them in the community, because I was told there was one professor here and at one of the universities who said that we have got a real problem right now if we are going through this growth phase in enrolment but that later on we are going to have to close these down. I believe his suggestion was that we build schools that you can turn into nursing homes because we have got an aging population, or senior citizens' homes. I do not know if there has been much development.

I guess the other thing I just want to comment on is, I am not familiar enough with what the Ministry of Education guidelines are. Are there certain size requirements or maximum size requirements for elementary schools?

**Mr Yates:** Oh, yes. Everything depends on the enrolment, because you have to produce figures that students are coming in before you get any approval.

**Mr Sutherland:** Right, okay. But in the small towns there are a lot of small elementary schools where new subdivisions popped up. In that way, what are the requirements?

**Mr Yates:** If you are going to build a new subdivision, I know it is the same anywhere in the province. You have to produce the number of students who will be in that school.

**Mr Sutherland:** Okay, but are there regulations on how far you can bus kids at the elementary level, or is that set by a board? In a town of 10,000 people, there are schools from grades 1 to 6, and I think there are five different ones, small schools.

**Mr Yates:** I do not think there are any written-down regulations on how far you can bus a child, but there are considerations certainly from the parents' viewpoint for the time they are spending on the buses and that type of thing.

**Mr Sutherland:** Right.

**Mr Yates:** People today are not the way they were when I went to school. People today wish to have a school in their neighbourhood.

**Mr Sutherland:** Right.

**Mr Yates:** Very much so.

**Mr Sutherland:** I walked a quarter of a mile every morning to get the school bus.

**Mrs Gandolfo:** Just to add to that, in the case for example of French schools, in some areas our schools are becoming more and more regional schools. So the transportation time or distance varies, and I guess each local board wants to retain a certain autonomy in deciding how far it wants to go with the busing. But it is pretty much at the local level.

1710

**Mr Yates:** There are two corrections I might make to you. On page 3, at the bottom, it says 1991. It should be, on the fifth line from the bottom, 1990. It was a misprint. The same thing happened on page 5 in the middle of the last paragraph. The first \$200 million had increased over 1990, not over 1991, just so there is no confusion.

**The Chair:** You could have just brought it back next year. Do we have any other questions for this presentation? Seeing none, thank you for coming this distance. It was very good to of you to take the time.

**Mr Yates:** Thank you very much for hearing us.

**Mr Christopherson:** I believe that does end our planned hearings.

**The Chair:** It ends it for this week. We do have some planned for Monday morning.

**Mr Christopherson:** Yes, and I just want to address and place a motion regarding giving some direction to the research staff as to some of the general thrusts and themes of what at least the first-cut draft report might look like, as well as perhaps spelling out a time frame for having that report available. We are now being circulated with the summary of recommendations, which I understand is a

straight listing of all the recommendations that we have received to date. Is that correct?

**The Chair:** Till noon today.

**Mr Christopherson:** Till noon today, right. And all of this preparation of draft documents, as I understand it, is of preliminary drafts in light of the fact that there are still some presentations to be heard Monday, but we do have time frames that have to be realistically addressed in which to finalize an actual report that the majority of this committee can support and send on to the House. Therefore what I would like to do, Mr Chair, is to move that the—and if I am in any way offending by virtue of how I am wording the motion, I apologize ahead of time, and perhaps I can be corrected now or after the meeting, but I would move that we direct the research staff to produce a preliminary draft report incorporating the following themes and categories. One, under the the heading of the economy, the impact of the recession.

**The Chair:** Go very slowly.

**Ms Anderson:** Unless you have it written down.

**Mr Christopherson:** No. I was again thinking of Hansard, but that is okay. None of this is firm; it is meant to be just a general direction. But under that general heading, things like the deficit, job losses, the economic restructuring and a comparison with the previous recession. That is under the impact of the recession.

And under cause of the recession and the contributors of the recession, such as high interest rates, high Canadian dollar, the war in the Persian Gulf, free trade and globalization and the international recession.

Also under the general heading of the economy, a summary of the forecasts that we have received.

Next, an important theme is the concept of what I will call, for lack of better words right now, answers in partnership. That would be described in terms of the public input that we all would like to see more of.

Also, the consultative approach—more consultation in government as we develop these partnerships, and in partnerships developing and finding the answers to the problems that we face, and then talk specifically about some of those partnerships and how they may work. For example—this is not meant to be totally all-inclusive—I would also the offer the suggestion that it may not be possible to actually describe which partnership per se, if it looks like we are going to end up leaving anybody out. It just becomes such a long list that it loses its impact; that is open for discussion and debate.

We would be looking at partnerships, for example, with the arts community, communities themselves, business, labour and other governments.

**The Chair:** Education: Did you have a special category for that?

**Mr Christopherson:** It could be.

**The Chair:** I am just throwing this out because it was a major part of our presentations today, the teacher recommendations, the board recommendations and the colleges and so on.

**Mr Christopherson:** I guess I saw that as being of the other governments, part of the board of education and that whole relationship, and maybe under the heading, which comes under social issues. If you give a chance to finish it, then if I have left any gaps, I means.

**Ms Anderson:** So this is still just called partnerships.

**Mr Christopherson:** Which, I am sorry?

**The Chair:** Still part of the partnerships.

**Mr Christopherson:** Yes, the other government stop.

**Ms Anderson:** I have got lost now; I am sorry went through labour, education, other governments.

**Mr Christopherson:** Then stop. No, social issues be—

**Ms Anderson:** That is a major heading.

**Mr Christopherson:** No, the one after the next next major one was agriculture, a suggestion that we at agriculture as a separate issue. Then social issues under social issues, last on the list but by no means then talk about all the social issues and the specifics that were addressed.

That is merely to offer up strictly a general, frame by which staff would have some sense, if this carries, of what the majority is comfortable with of course as I understand this process, leaves it wide for debate and discussion following the finalization public hearings next Monday.

**The Chair:** Second? Mr Jamison. Are there comments or questions?

**Ms Anderson:** I have a question. Perhaps you elaborate a bit on the partnerships section, particularly specifics. You want us to talk about what you have from education and from labour in that section. I am entirely clear what it is you would like us to put in particular section when we are looking specifically at partnerships that are in the answers and partnerships section.

**Mr Christopherson:** The first thing I mentioned to define it, if you will. What does it mean? The through that concept is the idea of the public input. Consultation is a big part of that.

The partnerships themselves, then, and I couched saying that if we end up with so many individual groups do a paragraph on partnerships with, you run the risk of leaving out a major group. Again, all we are offering framework. I do not suggest this has been fully—

**Ms Anderson:** This is to bring forward themes that have been presented to you in the course of the hearings opposed to drawing from anything else.

**Mr Christopherson:** Yes, at this point. For your work, yes, because it seemed to be that there was a lot of discussion from many of the presenters about the desire. In fact today many of them were saying: "We do not even here to bring forward dollar requests. We want to talk to you about working with us. We want to be plugged into the system." The motion suggests that this is a common thread that ran through the overwhelming majority



submissions and that this section would reflect that, the importance of that partnership concept to the many of this committee.

**Mr Phillips:** It sounds fine. I think it would be realistic. I felt there was a lot of consensus by the kind of professional forecasters about where they see the economy going, so I guess that will be one of the things that emerges. I think the partnership thing will emerge. I think the challenge for us will be that so close to having gone through an election, with each of us having laid out our position, it is going to be very difficult for us. The Conservatives have probably already written their—

**The Chair:** Yes, we saw it in the paper today.

**Mr Phillips:** I would dare say that is about it. I think there will be where there will be some differences of opinion. They have said what they are going to say and I suspect we will graft on that from where we may descend to a slightly different view about how realistic it is to contemplate. But I think we ought to get going on it. My mind has been to rush right now. I cannot think any more. No, do not put that in Hansard. I can think now. It is all clear.

**Mr B. Ward:** We got that in the record.

**The Chair:** The oxygen is now there. You are snapping now.

Interjections.

**Mr Phillips:** I am fine now.

**Mr B. Ward:** Who was the guy who said that?

**Mr Phillips:** Thank you very much, Mr Stockwell. It was Mr Phillips speaking now.

**Mr Christopherson:** Just to clarify the third point under the general heading of the economy was indeed forecasts and I think it is important that we get the reflection of what was said. I think that might cover some of the concerns Mr Phillips raised.

**The Chair:** Do we need a time frame in terms of when we would like this to be available to us?

**Mr Christopherson:** If you can get an acceptance of that motion, I have a follow-up in terms of the timing on the draft.

**Mr B. Ward:** Tomorrow morning?

**Mr Christopherson:** Oh, you have extended it?

**The Chair:** Do we have a consensus? Do we need to have a show of hands on a vote? Everybody is happy with it? Very good. When would we like this?

**Mr Christopherson:** I would like to suggest or move that if it is humanly possible—I understand it may be tight, but it would be humanly possible—if that could be ready on Sunday evening around 6? If that is possible, that would allow the three parties an opportunity to acquire the drafts as they desired them on Sunday evening, so that on Monday afternoon after the draft is walked through by the staff, if time permits we can actually begin some debate. I think there is a concern on the part of the staff, and it is certainly shared by our caucus, over the limited time that we have to discuss this, and it is an important document.

**The Chair:** Could I interject with a question at this point? The Treasurer has not given us any firm date by which he would like to have our recommendations. Are you aware of any date or target time frame within which we are working?

**Mr Christopherson:** As I understand it—as a neophyte I always stand to be corrected—this whole operation after Thursday does not have any standing or any money to operate, and we have to be finished and have the report adopted by Thursday and that is our built-in time frame. Since you are being very successful at getting consensus—I did not want to load too much in at one time—the second part of this was to build in that the dissents, if there are any, and I suppose at a stretch one could imagine there might be—

**Mr Phillips:** You should allow for that possibility.

**Mr Christopherson:** Yes, that is what we will do. We will just prepare for the eventuality that happens. I would ask—if I can push the process, Mr Chair, through you—if five days following our work on Thursday is acceptable to—at least Mr Phillips is here and the staff—if that suits the time frame they would have for the dissents to be received by the staff. They could then be incorporated into the final report and delivered to the Treasurer within a week of our wrapup.

**The Chair:** So that is the 14th and 15th?

**Mr Christopherson:** I have to say that I have not yet talked to the Treasurer about that deadline. If that does not work, I will get back to this committee, but my assumption is that would indeed give him time to consider it.

**Mr Jamison:** A question to the committee: As far as meals are concerned, we are allowed to claim up to \$27 without a voucher. The lunch, one meal a day, was provided. Should we make an adjustment in our allowance?

**The Chair:** The clerk has informed me that the adjustment will be done on a basis that they will take the cost and distribute it over the number of members of the committee and deduct it and there will be a sort of prorated—

**Mr Phillips:** I just had two sandwiches.

**Mr Jamison:** I just had one.

**Ms M. Ward:** I could do with two more right now. Who took it away?

**The Chair:** The press guy.

Interjections.

**Ms Anderson:** It is a question of getting some more copies at the same time.

**Mr Christopherson:** On that point, I was going to suggest that if the reports could be made available, and this I think will require the support of the offices of these other parties, the opposition parties, if the report could be available somewhere in the Legislature that is accessible and acceptable to everyone, then it would be up to each caucus to distribute them to their members should they desire them. The best would be if the committee, under your direction, were to receive them through the committee mechanism, but if that is not possible I think that second

approach would leave it up to the caucuses to get it in the hands of their people themselves.

**Ms Anderson:** Can I ask another question?

**Mr Christopherson:** Sure. I am going to run out of answers eventually.

**Ms Anderson:** The reports are generally considered confidential, so they are normally signed for and signed in and out of people's hands. Part of that would depend on whether you go in camera or not when you are writing your report.

**The Chair:** I think this is the way we should handle this. I just throw it out as a solution, that the question is, if you want it available Sunday night, who in this building is available to get it on Sunday night?

**Mr Christopherson:** I can get them for our caucus. I can pick them up. I am not sure how I will distribute them, but I can pick them up.

**Mr Hansen:** But who do you sign with? Who do you get to sign?

**The Chair:** Is it possible that if they were available Monday morning—

**Mr Christopherson:** That does not work as well. The whole purpose of Sunday evening is that they can be read Sunday evening and discussions would be ready to go.

**Ms Anderson:** I shall be sleeping here.

**Mr Christopherson:** Could I not suggest this, Mr Chair? If indeed the research staff can provide the documents in that time frame, then can arrangements not be made for some type of courier service to ensure that they

are mailed out, and it is up to each caucus and maybe clerk could contact the—I do not know if there are caucuses on these committees, but one person from each caucus who will find out where these things should be sent on Sunday night and send them out by courier, received with a signature.

**The Chair:** Who is going to sign for it?

**Mr B. Ward:** Whoever receives them.

**Mr Christopherson:** Yes. A lot of members are in town Sunday night.

**Mr Hansen:** You have Norm Sterling. He is going to be flying in from Ottawa-Carleton. Who do you have Murray Elston filling in for Monte Kwinter?

**Mr Phillips:** We do not need them Sunday night. Realistically, I do not think we will have any of our members who will be poring over it Sunday night. I believe anything Monday morning is fine for us, but you guys can do what you like.

**Mr B. Ward:** We will make arrangements together Sunday night.

**Mr Hansen:** I think they should be available to the caucus offices.

**Mr Christopherson:** The question is, do we have a clerk's office to ensure that they are provided or do we do it as we think we need it?

**The Chair:** I do not think we need all this Hansard. I will adjourn the meeting.

The committee adjourned at 1729.



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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday 4 February 1991

The committee met at 1007 in committee room 2.

### PRE-BUDGET CONSULTATIONS

#### ONTARIO NATURAL GAS ASSOCIATION

**The Chair:** I think we should get a full morning of hearings and I see a quorum, so I would like to begin and welcome everyone here this morning. I would like to welcome the Ontario Natural Gas Association, Paul E. Pinnington, president. If you could introduce your companions this morning, we will get under way. We would like to keep the time frame to half an hour, starting about 10:00 a.m. You can begin your presentation.

**Mr Pinnington:** Thank you, Mr Chairman, and good morning to members of the committee. My name is Paul Pinnington and I am the president of the Ontario Natural Gas Association. To my immediate left is Mark Wolnik who is vice-president, operations, of Centra Gas Ontario. To my right is Carl D'Croix who is vice-president, administration, of Cliffside Utility Contractors Ltd, and to my immediate right is Brian Gabel, chairman of the association's finance and operating committee. Mr Gabel is also comptroller of Union Gas in Chatham, Ontario.

We are pleased to be with you and thank you for the opportunity of being here this morning. This is the fifth occasion that we have made presentations to this committee.

On behalf of the members of the association, we have prepared a brief entitled Policies to Strengthen the Ontario Economy 1991, and this text has been distributed to all members of the committee. Mr Gabel has prepared an overview of the brief, which he will take us through, and I assume it will probably take 18 to 20 minutes.

Copies of the brief have been provided to all committee members and with your concurrence, Mr Chairman, I would propose that my colleagues and I respond to questions on conclusion of Mr Gabel's presentation. The brief, along with Mr Gabel's comments have been provided to the clerk and a copy to Hansard. Additional copies of the brief are available to interested parties. With your permission, Mr Chairman, I would ask Mr Gabel to proceed.

**Mr Gabel:** Mr Chairman, members of the committee, thank you very much for this opportunity to speak with you today about Ontario's financial and economic affairs. The current economic and fiscal situation lends special significance to your pre-budget consultations this year. In my view, the 1991 Ontario budget will be one of the most important in recent history. We feel confident that the Treasurer will pay close attention to the committee's findings and recommendations.

The Ontario Natural Gas Association is the voice of the natural gas industry within Ontario. It has over 300 mem-

ber companies and individuals, including gas producers and marketers, as well as transmission and distribution companies, equipment manufacturers, buyers, professional organizations and contractors. If we consider the four major gas utilities alone, members have in excess of \$6 billion invested in the province. They employ over 7,000 persons, serve more than 1.8 million customers and pay taxes that approach \$200 million. Our association has a vital interest in the economic wellbeing of the province.

We have forwarded to this committee and to the Ontario Treasurer a written report entitled Policies to Strengthen the Ontario Economy 1991. We will today endeavour to provide a brief overview of that report and the recommendations it contains. Our presentation will be dealing with four main topic areas: the economic outlook, the fiscal realities this government currently faces, the issue of the current tax burden and tax reform, and economic issues related to energy. I will recap our recommendations at the conclusion of the presentation.

Let me turn first to the economy. The economic outlook for 1991 is at present not terrific. The Canadian and Ontario economies are in a recession and a turnaround may not be expected until the end of 1991 or into 1992. Our economic woes are compounded by a recession in the United States, high interest rates and a high Canadian dollar. The conflict in the Middle East adds to our economic malaise. Consumers in the business community lack confidence that a dramatic turnaround can occur in the near future.

It is not a favourable economic outlook at all. In fact, we believe the Ministry of Treasury and Economics' December 1990 forecast to be somewhat optimistic. The ministry's forecast presumes a real increase in economic activity within the province of one half of 1% in 1991 and an average of 2.9% in the three subsequent years. Recent comments by the Treasurer have suggested that a less optimistic outlook may in fact result. In view of the weak economic situation, our association recommends that the 1991 Ontario budget avoid measures that might further depress the business and consumer confidence within the province.

For the medium term, the outlook is also far from rosy. We expect that economic recovery when it comes will be less robust than in the 1982-89 period. We can expect that increases in unemployment will take place before the recovery begins. There are two main reasons why the economy will be slow to rebound. First, consumers have relatively less capacity to spend than they had in 1982. Second, the deficit position that governments presently face hampers their ability to put forward new initiatives.

This slide shows the change in Canadian consumers' capacity to spend relative to 1982. You will note that in almost all cases—in fact, in all cases—there are fewer



dollars to work with. That is showing the disposable income for Canadians that is taken up with various fixed expenses, such as mortgage debt, other forms of debt and income taxes and other taxes. So it is saying 50% of a consumer's income is taken by servicing his mortgage debt.

**The Chair:** They do not add up 100.

**Mr Gabel:** No, there will be other things.

**Mr Phillips:** I guess I do not understand that chart. Mortgages are 50% of income?

**Mr Gabel:** After taxes, yes.

**Mr Phillips:** And the other debts?

**Mr Gabel:** Other debts, such as car loans, credit cards, whatever else. Statistics Canada provides this kind of information on a regular basis.

Given the fiscal circumstances of government and the financial capacity of consumers, there seems little chance that we can spend our way back to prosperity. The greatest potential for stimulating an economic turnaround lies with the business community. If the confidence of the business community can be bolstered, then business activity will increase, boosting employment and incomes. Part of that increase in business activity will come from rising exports, once interest rates and the external value of the Canadian dollar are allowed to decline to lower levels.

Accordingly, as this slide shows, the association recommends that the 1991 Ontario budget contain no net tax increases and should convey a strong message of confidence in the business sector.

There is need for fundamental change in approach and attitudes if Ontario is to stay competitive in the global economy of the future. Our ability to compete and to raise our standard of living will depend to a large extent on our ability to improve productivity.

Our submission discusses the need for new problem-solving mechanisms. For example, we must find new ways to communicate and co-operate in the areas of worker training and technology advancement. In that regard, programs like the new Canadian Labour Force Development Board present a new opportunity.

**Mr Elston:** Can I ask a question?

**Mr Gabel:** Yes.

**Mr Elston:** You just make the statement that wealth will be increased by productivity. Is that right?

**Mr Gabel:** Yes.

**Mr Elston:** Wealth from what?

**Mr Gabel:** In terms of gross domestic product.

**Mr Elston:** Yes, I know, but wealth has to come from someplace, I do not care whether it is stated in the GDP or whatever it is called. Where are you looking at this wealth arising from? What sectors are you looking at as creating the wealth?

**Mr Gabel:** As a general statement, I think what we are saying is that whatever industries Ontario leans towards in future years are going to have to be competitive on a global scale. In order to be competitive on a global

scale, the net outputs that are achieved per unit of input going to have to be greater than competitor nations.

**Mr Elston:** But are you suggesting that we in Ontario might very well choose the areas that we want to high for the creation of that wealth or are you just merely repeating the statement, "Wealth comes from better productivity"? That seems to me to be fairly self-explanatory, but

**Mr Gabel:** I think both really. If we look, for example, at Michael Porter's work on the area of productivity in nations, and I think he has a book out dealing with that particular topic, he suggests that nations and provinces should not be looking to specialize in all things. You cannot be all things to all people any more than you or I as individuals, can be all things to all people. We have to concentrate in the areas that we can do best, where we can add the maximum value. His proposition, and I think it is a logical proposition, is that by doing so you create the greatest wealth, not just for the companies but for the individual workers, because you are able to afford to pay them the maximum dollar for their labour input.

**Mr Elston:** So would part of your submission to the Treasurer, since he is asking for long-term as well as short-term advice, be that he highlight or isolate certain sectors of the provincial wealth in which to increase productivity?

**Mr Gabel:** Absolutely. I think there are certain areas where we can have a bigger bang for the buck.

**Mr Elston:** Does that come up later in your presentation? Am I getting ahead of myself just asking these questions?

**Mr Gabel:** No, I think in terms of trying to isolate what the particular industries are where we might achieve the greatest returns, we have not tried to do that in our proposal. There are other people who have tried to do that. I think the Economic Council of Canada has tried to put forward some suggestions in that regard.

As I recall, the Premier's Council was moving in that direction as well, that is, the Ontario Premier's Council. There are other people who are doing that kind of work for us. All we are saying is that we have to follow up on that work and try to make some definitive policy statements.

**Mr Elston:** So you are endorsing that activity then under the current administration.

**Mr Gabel:** Our recommendations in this area are two. First, as shown on this slide, we recommend that the standing committee review the findings and recommendations of the Economic Council of Canada on skills training and the proposed mandate and funding of the Canadian Labour Force Development Board for their implications for Ontario.

Second, we suggest that in 1991 the government of Ontario convene a trilevel intergovernmental conference with private sector participation to identify the issues and priorities and potential mechanisms for improved problem solving. Examples of issues they may wish to discuss are waste reduction and disposal alternatives and the economic consequences of public sector spending.



Now I would like to turn to the fiscal realities that we must face in the very difficult economy of today. We've, as the Treasurer has noted on a few occasions, a significant budget deficit. The 1980s was an era of very substantial tax increases. These tax increases financed dramatically increased government spending. Pressures for further spending continue, despite the size of the current deficit and the weak economy. It is a very difficult circumstance for a government and its constituents to face, but we must do it.

Based on the Ministry of Treasury and Economics' medium-term economic projections, ONGA estimates that if expenditures continue to grow at the rate experienced over the past decade and if taxes are not increased, the deficit could reach almost \$12 billion in just four years' time. There is clearly a need for some restraint.

**Mr Phillips:** That is with the assumption that the GDP will grow at the rate the Treasury said it would grow?

**Mr Gabel:** That is correct.

**Mrs Sullivan:** With no added revenue or expenditure cuts.

**Mr Gabel:** With the inflation and revenue at 90% of GDP growth.

**The Chair:** Could I recommend that we go back to the format? I will take names and we will have the questions at the end in order, please.

**Mr Gabel:** Thank you. Ontario simply cannot afford another decade of successive tax increases. Accordingly, we recommend that the standing committee advise the Treasurer that assuming no tax increases, the expenditure growth rate over the medium term must be held in the region of 7% per annum simply to hold the deficit in the \$1-billion range and that to balance the budget would require a growth rate in the 6% per annum range.

Mr Chairman, it should be noted that a 6% expenditure growth rate allows for approximately a 2% annual increase in real spending if inflation averages 4.1%, as forecast by the Ministry of Treasury and Economics.

Continuing on the topic of taxes, the tax burden in Ontario increases every year. When we reported to you a year ago, we estimated that the cumulative effect of provincial tax increases during the 1980s was to increase budget revenues in the fiscal 1989-90 period by as much as \$7 billion, when compared to revenues that would have been taken had no tax increases been imposed.

During the 1980s, local governments also increased their tax revenues and the federal government has implemented tax reform. These changes in tax levels also impact Ontario residents. It is certainly an appropriate time for study of taxation in Ontario by the proposed Fair Tax Commission.

We recommend that the mandate of the Fair Tax Commission be decided and announced as soon as possible and that the commission address, in addition to equity issues, other equally important issues bearing on tax efficiency and simplicity and the impact of tax reform on economic growth and productivity.

We also recommend that for sales tax reform the government consider changes that would simplify tax compliance for Ontario residents and reduce tax administration costs for taxpayers and for governments.

Our final topic for discussion this morning is energy. Ontario accounts for one third of Canada's energy requirements. Our sources of end-use energy are diversified; however, steps must be taken to improve our energy security. We depend on oil for almost 40% of our energy needs and on electricity for another 20%. There are risks related to the supply of these two sources of energy, which account for almost 60% of our total end-use energy requirements. The Gulf war, for example, suggests that it would be prudent to reduce our dependency on oil. Moreover, Ontario Hydro has determined that the province faces the prospect of near-term electricity supply shortages. Natural gas and proven natural gas technologies are a viable alternative to oil, coal and, to some extent, electricity.

As I started to mention previously, Ontario Hydro's 25-year demand-supply plan indicates that even after exploiting the potential for electricity conservation, Ontario faces electricity supply shortages within this decade. The Environmental Assessment Board hearing will be assessing the requirements and rationale for new demand-supply options, including natural gas options, that have been identified by Ontario Hydro. Our association will be participating in a focused manner at this hearing.

We do have concerns, however, with the pace at which the adoption of these new electrical generation options might proceed. The Environmental Assessment Board hearing could take up to three years. For that reason, we recommend that the government take interim steps, as necessary, to ensure the timely development of parallel generation and to support Hydro in the timely integration of natural gas into Hydro thermal plants and also to encourage the economic substitution of natural gas for electricity, wherever appropriate.

One last energy topic is natural gas for vehicles, of which we have spoken to this committee in our prior presentations.

Natural gas for vehicles remains an important new market for the natural gas industry in Ontario, and member utilities have certainly been pursuing that opportunity. In excess of 8,500 Ontario vehicles are currently operating on natural gas and there are more than 40 natural gas refuelling stations within the province. We now have transit buses that run on natural gas and can refuel in seven minutes and operate for 19 to 20 hours before they are again refuelled.

It is, in our view, a market with tremendous potential, for more than \$200 million of industry investment may be expended by the year 2000. If those investment levels are achieved, we might expect 400 million litres of gasoline to be displaced on an annual basis. As I said, it is a market with potential, but it is still a market that is in its infancy.

ONGA recommends that the existing NGV incentives be maintained to improve energy efficiency and energy security, to lower emissions and to provide necessary support to the NGV industry while it is still being established, and that the standing committee support this position.



To recap, we, as an association and as Ontarians, are concerned that the economic recovery may not begin in Ontario until late 1991 or early 1992, and that over the medium term economic growth may be modest when compared to the post 1981-82 period.

We are also concerned that for Ontario to compete in the global economy we must have measures implemented that allow us to improve our skills training and boost the productivity of industry.

At the same time, however, we have a concern that Ontario's fiscal situation requires a firm de-escalation of the expenditure growth rate. There is simply no room for another round of tax increases. There are, however, some opportunities for greater efficiencies at all levels. In that regard, we encourage greater co-operation among all three levels of government and between the governments and the private sector in order to jointly identify key issues and develop new mechanisms for problem solving.

Last, energy security is vital to Ontario, and demand for electricity will track higher as the economy strengthens. The government has to take interim steps as necessary, to ensure that the Environmental Assessment Board hearing on Hydro's demand-supply plan does not delay unduly the implementation of essential and viable demand supply options. We also encourage your continued support for the natural gas for vehicles program. We hope you will take account of these recommendations in your report to the Ontario Treasurer.

**Mr Phillips:** Thank you very much for a very thoughtful presentation. A lot of work, I know, went into it.

On one observation somewhere in here about an imbalance of revenue and expenditures: Just to remind you, there was a surplus last year, and I think any reasonable person would say there would have been a surplus this year had we not run into a tough recession. Revenues, in spite of that, will be within 1% of what was estimated a year ago for this fiscal year. I suspect many of your businesses would like to be within 1% of their revenues, as we are now.

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My question, though, really is just around the deficit. The fact of the matter is that an election was held just a few months ago. The new government was elected on the basis of not restraining spending but rather of implementing certain programs. Recognizing that reality—your advice, I know, is to raise no taxes—assuming that it is going to be difficult to restrain the spending in your line, would you still say no taxes and just let the deficit rise?

**Mr Gabel:** I think what we are saying is that expenditures have been rising at the rate of a little in excess of 10% per year in recent years. That is obviously a good deal in excess of what inflation has been running. We think the economy has reached the state where there is rather limited prospects to collect more taxes, and that there has to be every effort taken to reduce expenditures rather than to merely continue on an upward trend. I appreciate that may be more easily said than done.

**Mr Phillips:** It is having just gone through an election when the people spoke, and the agenda on which the party

that won ran said, "Listen, there's a recession but we are going to spend this money." I think it is going to be a little difficult for the government to implement your proposals. That is all.

**Mr Pinnington:** I guess the decision regarding the government will spend we will not know until we see the budget. So to some extent, it is not appropriate for me to comment on what was said prior to an election.

**Mr Phillips:** I appreciate, as I say, a very thoughtful and I think extremely useful presentation. I am just trying to condition ourselves to reality.

**Mr Pinnington:** We recognize that the reality is extremely difficult, to curtail spending. The other side of the coin, of course, is the kinds of deficits that are projected here and they clearly could be extremely damaging.

**Mr Phillips:** Well, we never got our message across, I guess.

**Mr Hansen:** One slide there says, "Potential Ontario budget deficits: 1990-91." I notice 2.5, and I see that same figure at the end in 1994-95 at 11.8. Could I get a comment on the source of this and the research gone into it? I thought when I was listening to the Ontario Natural Gas Association I would be hearing more about natural gas. I did not expect to be hearing more of a banker's report.

**Mr Gabel:** We provide some information respecting that in our report, which is the blue document that we have gone out a little while ago. There is a chart that was included there at page 27. Perhaps I will give you the overview of it.

What we have tried to use is the Treasury and Economics forecast as to GDP growth over the forecast period to 1995, as well as the trend as to expenditure growth in recent years, which is an increase in expenditure growth of some 10.4% per year on average. We then have just deflated the revenues, which are from the Treasury department, and the expenditures, which are from the Treasury department, by those respective inflation rates, being the GDP growth and the expenditure growth rate.

It is not meant to necessarily be Treasury and Economics's forecast of what the future would be as much as saying here is what its forecast of revenue growth would be if we take past experience in terms of expenditure growth, and this is the kind of situation you are going to be facing four years down the road.

**Mrs Sullivan:** I wanted to move to the energy section of your report. Like my colleague, I think this report has been very well done.

I am looking at your conclusion that there may be electricity shortages in the 1990s. You see an increased role for natural gas. I wonder if you would comment on the availability of supply, including measures that may be taken by the provincial government or required by the provincial government in terms of pipeline activity and the kind of costs that might be needed. I also look to page 6, the possibility of need for interim measures re the DSP. I wonder what kind of interim measures you mean. Do you mean provincial incentives for co-generation?



**Mr Pinnington:** I will have a go at responding to those questions directly. I could speak for half an hour on these issues.

Recognizing that we are running close, let me tell you that in terms of the supply of natural gas, it is an abundant resource in Canada. In the western sedimentary basin—Alberta, Saskatchewan, Alberta and British Columbia—the known reserves of natural gas are in the area of 90 trillion cubic feet. In terms of Canadian consumption, we are looking at 10 years-plus, in terms of a life index. There are very substantial additional quantities of gas known to be there that could be available, as the price of gas would increase. We do not see any problem in terms of an abundant supply and competitive price of natural gas.

Pipelines we view as a mechanical proposition. Given the need for a pipeline, the financing for a pipeline, we can put a major pipeline addition in place within a couple of years; 24 to 30 months is the time horizon, for example, quoted by TransCanada PipeLines.

With regard to the demand-supply plan itself and the interim measures, Hydro's demand-supply plan, as you know, had an emphasis for the addition of nuclear capacity. The timing of that capacity was seen to be 12 to 15 years out, going through the whole planning process until you had the capacity in place, but clearly the demand data, the statistics that are provided, indicate that power will be required in the interim. It is in that interim period that natural gas could provide significant quantities of power. A high-efficiency, natural gas, electric-power generation facility could probably be put in, say, in a matter of two to three years. The technologies are relatively simple, off the shelf. We can produce electric power as efficiently as over 50% using co-generation, which is a term you have, I am sure, heard of from time to time. Of course, there are immense environmental benefits to be had in using that technology, as well.

There are also other things in an interim way. There is still a fair amount of electricity used in heating homes, which we think is an inappropriate use. We have been working with Hydro, and it indeed is responding to reduce the power used in electric heating, in the heating of hot water. There are still many homes that use electricity to heat hot water, and of course we believe that an inefficient use of electric power as well.

**Mrs Sullivan:** I guess I was really wondering about government incentives for co-generation. Are they necessary to meet that interim supply need?

**Mr Pinnington:** The position we have taken in the past is that this industry should not be looking for incentives in terms of financial incentives. I would like to make that very clear. What we are looking for from this government is clear policy statements indicating how these energy forms are best used; legislation and regulation that would ensure there is a proper use of energy. But the natural gas industry has not asked for financial incentives.

There is one area that we have concentrated on recently: buyback rates for co-generation. We would look for guidance from the government and assistance in terms of

establishing reasonable buyback rates on the part of Ontario Hydro.

**Mr Wolnik:** I might just add to that, the availability of technology to make co-generation is real, the use of natural gas in vehicles is real, and the use of higher-efficiency equipment for space heating is here, it is proven. So it is not a matter of going out to develop this technology. It is being used, it is here. It is just a matter of getting the kind of buyback rate for co-generation that will make this happen. I think that is the kind of thing this committee can help with.

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**Mr Elston:** Just one comment about the energy section of your paper: You mentioned that natural gas could be a good alternative, but there are large parts of the province for which there is no option towards natural gas. I moved from one part of Ontario, Wingham—northern Huron county, which is not served at all. Happily, I moved to Walkerton, where we do have Union Gas supply. I am a monthly cheque writer, or at least either myself or my spouse is. But there are large parts of the rest of Bruce county which are not served and for which there is no alternative, so we continue to heat the water with electricity and otherwise. What do you do for those people who do not have any choice? Obviously, you do not want to give away the money by putting in a pipeline until you are guaranteed a big user at the far end of it.

**Mr Pinnington:** Any time a utility puts a new piece of pipe in the ground, for example, to serve Wingham or the peninsula area, it must appear before the Ontario Energy Board and prove that the pipeline is cost-justified. There have been programs; the distribution system expansion program that the federal government initiated some years back, where there was some subsidy, put natural gas into many, many communities.

There is now discussion going on with the Ministry of Energy and with Ontario Hydro and before the Ontario Energy Board to re-examine some of these areas that are marginal even now, to see if we cannot find ways to cost justify their number. Chalk River is one, Parry Sound, I think, is another. There is quite a number of areas we would very much like to get to.

In response to a question Mrs Sullivan asked, there is reason to believe that possibly between Ontario Hydro and the natural gas industry there may be some opportunity to find the funding for those pipelines that would be seen to be reducing the need for electricity. So we are attempting every reasonable creative activity we can to get gas to as many people as we can.

**Mr Elston:** You will probably agree, however, as the economy closes many plants permanently in some of these places—Wingham, for instance, just found out that one of its two door factories will be closed permanently as of April 1991. Stanley Door is done, Premdor is basically done, Royal Homes has closed down at least until March; we will find out what happens in the spring there. Would it be rational to assume that if all those plants are closing down and there is not a large industrial user, it would be



less likely that you would be able to prove the economic utility of going in?

**Mr Pinnington:** There is no question, the smaller the load in any given area the more difficult it is to justify the pipe. The problem you mention is, I think, a very important one to this province and one we should be looking at very carefully. We are very much aware of the closing of these facilities.

**Mr Elston:** I got sidetracked a wee bit. I will look at a couple of areas on the report. There are two things. One is the comment about federal tax reform, which I am interested in, and the other is the issue of the first statement, which was a recommendation that the budget avoid measures that might further depress business and consumer confidence. I presume that basically means no increased spending, no increased taxes. Is that fair, to wrap it up in those two short words?

**Mr Gabel:** The absolute absence of tax increases or spending increases I am not sure would be absolutely essential. But certainly directionally, we have to be moving in that way. If you read the Economic Council of Canada document, which I think was its 27th annual review, it had a survey that had been done regarding consumer and business confidence levels and it really was a very grim report in terms of business confidence within the Canadian economy. I guess what we are trying to say is that we have to create a framework where we are saying that this is a good place to do business, that there are not going to be rude surprises, that we are going to be doing rational, thoughtful things that are creating a good environment for the long-term health of the province. I think that is really what we are trying to get the most.

**Mr Elston:** But your report, basically, to us, has said that there should be no net new taxes.

**Mr Gabel:** We would certainly encourage that, yes.

**Mr Elston:** Of the items in the Agenda for People, which I am sure you have sort of taken a look at in general, which would you highlight for us as being the rational and the ones you would say are irrational, if I can put it in your own words? An Agenda for People was the framework around which the election was fought and won by the New Democratic Party. You said that as long as the government takes after expenditures which are considered to be rational and therefore makes us look like a reasonable place to do business, we will be happy. If that is the case, which of the items in An Agenda for People would you think might be rational? Is that being too precise?

**Mr Pinnington:** We do not have a copy of the Agenda for People.

**Mr Elston:** Okay, let's take a look at a couple of items.

Pay equity: an increase in pay equity; application to the people who are not already covered by the pay equity legislation. Is that rational or irrational?

**Mr Pinnington:** We are in the middle of pay equity activity, obviously, at this point in time and certainly the industry is very much in favour of equitable pay. I think one of the major questions is, how do you establish that?

We are certainly struggling with those kinds of question think there is probably another extremely important one and this was mentioned in Mr Gabel's presentation. As you do these things you must remember that we have an extremely competitive environment that we are working in not just provincially, not just nationally not just internationally but globally. You mentioned Stanley Door and some of these people heading out of this province. This is an extremely critical observation. I am sure wages and salaries are one of the elements of that decision-making process, so we stand for it in principle but we are concerned about some of the costs associated with it.

**Mr Elston:** What would you think of the wage protection fund which was promised in An Agenda for People? Is that a rational provision?

**Mr Pinnington:** I think we probably have not had the opportunity to consider that. I am not sure what our corporate position would be.

**Mr Elston:** I am only going through some of the items because as we give advice to the Treasurer, he is going to have to make choices. When business comes to us and says, "We want to be sure that business confidence is kept at a high level and that we don't depress consumer confidence and the whole works so that our economy continues," we have to understand the choices to be made. The Treasurer, at least provide him advice on those choices. If he should not choose to go with pay equity, that is some advice that may be of help to him from your perspective. It does not mean that he is going to have to go with it. It is going to be rational to give 50% increases to nurses in this province, as the Premier has indicated there should be? Is that rational?

**Mr B. Ward:** Wait a minute now, 50%?

**The Chair:** Mr Elston, this is going on quite a bit of time. I do not really like to cut people off, but—

**Mr Elston:** You are going to cut me off.

**The Chair:** I would like you to wrap it up.

**Mr Elston:** Okay, I will go to the federal government tax reform issue. Do you characterize GST as tax reform? Is it not just tax substitution?

**Mr Gabel:** It is part of a tax reform plan. It is really a substitution of revenue sources.

**Mr Elston:** Okay, that is the first part. What is the rest of their tax reform plan?

**Mr Gabel:** The rest of the tax reform plan, as it was put into the legislation, over a period of time involves changes in taxation with regard to pensions and there was a whole host of other matters. This all took place several years ago and it has been implemented piecemeal over a period of time.

**Mr Elston:** Not all of it has; actually some of the plans came forward and were denied and turned down.

**Mr Gabel:** That is correct.

**Mr Elston:** The GST is the only part that has really come forward, I suspect, and it is really just a revenue substitution, in fact a revenue enhancer, is it not, instead of a tax reform?



**Mr Gabel:** My understanding is that over the long term it is a tax enhancer, yes.

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**Mr Elston:** Is there something here in Ontario that you believe should be done with tax reform that would be characterized similarly to the GST?

**Mr Gabel:** I think what we were maybe trying to focus on when we were talking about the issues of efficiency related to taxation was the potential for economies between all the levels of government. The federal government now has its own version of the sales tax; the provincial has its own version of the sales tax. The federal government has income taxes; the provincial government has income taxes. They all have their own administrative procedures, their own bureaucracy to support tax collection and administration. They have their own auditors. It just strikes us as being an opportunity where—perhaps it is not going to work out entirely as efficiently as we would like—there are some opportunities for there to be economies realized by trying to meld these systems together to the extent that we can.

**Mr Elston:** So you would like to see it rationalized in terms of collection.

**Mr Gabel:** I would expect that the entire process could be rationalized somewhat.

**Mr Elston:** I just want one more line on this. That has to do with municipal taxes, because you have highlighted those as being much too high as well. Are you advocating change in the direction of revenues from municipal taxation in terms of the programs that they pay for now?

**Mr Gabel:** I do not think we are trying to focus on individual programs as much as we are saying that we have three levels of government that are all bordering on the same jurisdictions. In some cases the government at the federal level will have departments that are the same as departments that you have at the provincial level. You have municipalities that are involved as well in things like welfare. Each one of them is creating its decisions in isolation to an extent. We have to believe that there is, again, potential for greater efficiencies to the extent that there can be some commonality in terms of objectives. I am going to deal with this and you are going to deal with that, folks. So we are not going to try to cross boundaries.

**Mr Elston:** So the association would advocate a centralizing of the taxation authority and perhaps rationalization into one or two precise areas of that.

**Mr Gabel:** I am not necessarily saying a centralization of the tax authorities as much as let's try to co-operate to the extent that we can, folks, find a common ground, eliminate the duplication to the extent that we can.

**Mr B. Ward:** I will be fairly brief. I think just for the record, though, if Mr Elston was here when the ONA were here for their presentation, they in fact stated that that 50% was a misconception played up by the press and that that was not part of their demands, just for the record. I do not believe the Premier committed to 50%.

**Mr Elston:** Thanks, Brad.

**Mr B. Ward:** Just pick up the phone and call.

Just a question on your recommendations that there should be no increase in taxes, no increase other than the 6% in spending. That would suggest that you would be recommending we would be looking at spending priorities, spending efficiencies, programs that are existing that perhaps should not be. Is that what you envision?

**Mr Gabel:** That would be fair.

**Mr B. Ward:** I noticed in your blue-book brief, and you touched on it in the black book, you mentioned the natural gas vehicles program, yet I could not find how much of a tax subsidy overall the government gives to that initiative. There can be no denying that your industry would benefit from this program, which is why you are recommending continuing it. Just so I have an understanding how much of a subsidy we are indirectly or directly giving your industry, do you have an overall tax expenditure figure for your industry if you include the NGV program? Because I could not find how much the overall program cost. You mentioned Alberta and the federal government.

**Mr Gabel:** I could not tell you what the number would be. What the NGV industry receives at the present time is I believe the forgiveness of the provincial sales tax on vehicle conversions.

**Mr B. Ward:** Up to \$1,000.

**Mr Gabel:** Yes, up to \$1,000.

**Mr B. Ward:** And waives provincial fuel taxes.

**Mr Gabel:** That is right.

**Mr B. Ward:** Is it possible we could get that from our Treasury, Mr Chairman, or is that something that—  
Interjection.

**Mr B. Ward:** Thank you. So you did not actually have a total figure other than the specifics and a recommendation that we continue that subsidy.

**Mr Pinnington:** I am sure we have that data.

**Mr B. Ward:** If you can, just from your end, to see how it compares, I would appreciate that. It would help us to make the recommendations to the Treasury.

**Mr Pinnington:** I will commit to provide that information.

**The Chair:** On behalf of the committee, I would like to thank you for your presentation.

#### CREDIT UNION CENTRAL OF ONTARIO LTD

**The Chair:** Our next presenters are the Credit Union Central of Ontario Ltd; Warren Hanstead, director, and Bruce Neville, director. You could begin and perhaps you could introduce yourselves since there are more than two people there.

**Ms Mac Donald:** My name is Adelaide Mac Donald. I am general counsel for Credit Union Central of Ontario Ltd.

To my left is Warren Hanstead, who is a director of Credit Union Central of Ontario. He is also general manager of National Defence Credit Union Ltd in Ottawa. He is a former chairman of Credit Union Central of Ontario. Presently he is a director of Co-operative Trust Co of



Canada. He is a former director of the Ontario Share and Deposit Insurance Corp and he is also a former director of our national organization, the Canadian Co-operative Credit Society.

To my right is Bruce Neville, who is also a director of Credit Union Central of Ontario Ltd. He is also president of the Workers Compensation Board Credit Union Ltd.

We are very pleased to have the opportunity to speak to your committee. Our brief includes some information about Credit Union Central, about credit unions. We also have included some notes on the economy which were prepared by our national organization and presented as part of the federal pre-budget consultation process. We have also included a few notes on some things which are credit union concerns that have implications for the budget.

Mr Hanstead will speak very briefly on what the credit union movement is, Mr Neville will speak on our role in the Ontario economy and then Mr Hanstead will briefly speak again on some budget implications. However, we would like to leave ample time for questions and we would be very pleased to answer any questions you may have.

**Mr Hanstead:** I think it should be clear that within our brief you do not see us make any recommendations. We do have a couple of concerns we wish to talk to afterwards.

We believe it is very important that the government of Ontario realize how large the credit union system is in this province and what implications there can be on any program you do put into effect or cancel. I will just briefly go through what is the credit union system in Ontario, how large we are and, as I said, Mr Neville will follow after me.

Actually, the Credit Union Central of Ontario is the provincial organization. It is the financial service and trade association for about 600 credit unions in Ontario. There are about 1.3 million members of credit unions that belong to Central. Central is owned and controlled by its member credit unions. Membership is not mandatory, but the vast majority of credit unions in Ontario are members. I think around 61% belong to our central, then we have another 25% that belong to two French centrals, so the organized movement in the province of Ontario is about 85% within three centrals.

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The Credit Union Central is governed by an 18-member board of directors and the current chairman is Mr Carl Zawadzki, a director of Family Savings and Credit Union in St Catharines, and Mr Ed Grad is our chief executive officer. It should be noted that the credit union directors are elected at our annual meeting each March and they come from all parts of the province, from different types of credit unions and different sizes of credit unions.

The Credit Union Central of Ontario employs 230 people, has assets of \$1.2 billion and had a net income in 1989 of \$6.7 million. The 586 member credit unions provided financial services to 1.3 million members, have approximately \$7.4 billion in assets, employ approximately 3,000 people full-time and 1,200 part-time across the province, and have nearly 9,000 volunteers.

I think it should be noted that the number of outlets credit unions to serve people combined is larger than any of the major chartered banks. The credit union system as a whole has the largest distribution of outlets in the province.

If we want to talk about not just the credit union system in Ontario or the central but also the Ontario movement—the combined movement in the province of Ontario has \$10.2 billion in assets—we have 2 million members there are 5,000 full-time and part-time employees.

The roots of the Ontario credit union system are found in the mid-19th century in Europe, where farmers pooled their savings in credit societies in order to assist those of their number who were on their own financially unable to invest in land, livestock and equipment. A similar concept for the financial difficulties of the poor led to the establishment of Canada's first credit union in 1900 in Lévis, Quebec. The Ontario credit union movement consists of people who have joined co-operatively to pool their savings. Credit unions make loans to their members at favourable rates, provide other financial services of interest to their members and return net earnings to their members in the form of dividends and interest rebates on loans.

I just got my coat tugged here. I have a tendency, when I am reading a speech, to go faster than I should. In fact I always get tugged at the union meeting for doing the same thing. So you can always take your tape and slow it down later on.

Each credit union is locally owned and democratically controlled by its members, who are associated by a common ethnic, religious, occupational or community bond. Examples of credit unions falling into these categories are Ukrainian Credit Union Ltd, Catholic Parishes of Pelee Credit Union Ltd, Provincial Civil Servants O.R. Credit Union Ltd, Auto Workers (Oshawa) Credit Union Ltd and Hamilton Community Credit Union Ltd. Local ownership, democratic control and a common bond of association which are the characteristic elements of the Ontario credit union movement, lead members to identify closely with their respective credit unions.

I have a total of five more minutes so we do this democratically and we understand your problem and Bruce more long-winded than I am. So what I will do is go to Bruce to speak at this time and he can carry on.

**Mr Neville:** And then I will get kicked.

Leading into the economic impact, to re-emphasize, we are self-help financial institutions serving 1.1 million members in Ontario over the age of 18. We are member-owned- and -controlled and we help communities; we help people in communities. We are community-oriented, we support and finance community projects such as non-profit housing through our local credit unions, and if there is a project in an area that is too large for the local credit union to handle, then Credit Union Central syndicates loans and it is handled through Credit Union Central.

We are in all areas of the province, as Warren says, and we have gone into some areas after the banks have pulled out so that we can service the members in that area. We are sensitive to our members' needs, particularly during economic downturns. The local economy in the area, the local



economic outlook, impacts the credit unions which, as we said, are localized financial institutions. We help our members get through the tough times such as during layoffs that will occur now. Credit Union Central will provide increased lines of credit to the credit unions in the areas to help when members draw down on their savings, and they are drawing down on them faster than the other members in the community are repaying their loans.

I guess we should tell you that our system is consolidating and that we are in the process of developing a common vision that will allow the system to really unify and work towards a common vision in Ontario. We are working to get our message out and we want to bring our message before this committee. We are innovators in financial institutions. We are the ones that brought you daily-interest savings accounts first and the banks copied. We brought you the weekly payment mortgages. We brought you the debit cards and we brought you the automated teller machines. Because of it and because they were so successful, they were copied by the other financial institutions. I guess we will leave it at that.

**Ms Mac Donald:** Warren is going to speak on some of the budget implications of credit union concerns.

**Mr Hanstead:** One of the major items that we have been into discussion with, and Mr Elston was well aware of in his past role, is that we were trying to work with the Ontario Share and Deposit Insurance Corp and other credit unions to finally put away under wraps the problems that stem from the early 1980s, the very high interest rates and depression which caused the credit union system of Ontario to have some problems within its own ranks.

To date, the credit union system has funded that itself. There is a large outstanding obligation that the system is so prepared to look after. However, we feel that sometimes it might be a little bit too much for one organization to carry and we were talking about approaches to the government for some \$28 million of funding to help offset some of those costs. That is only \$28 million out of something like \$112 million or \$115 million of deficits that have to be looked after. The credit union system would be paying the balance.

With the change of government and change of people in different spots, we are not sure where this is going. We do not want it to be lost or left under the table. As I said, we are prepared to do our share, but when we take a look back at the deposit insurance corporation, it has been a few years since we have had any direct impact as to how it is managed and operated, and although we are required to pick up some 60% of the bill, we did not have any democratic process.

There were opportunities for appointments of director of that corporation that could look after the central, but for whatever reason that was not taken and done. Therefore, for probably six or seven years we feel that not having an opportunity for input, and the expertise that the central has and its members have, to ask for some government assistance in retiring this obligation so that we can continue to build and go on into the future is very important. The other

thing is that we pay all those premiums ourselves and it goes directly to the credit unions.

Another item we understand you are talking about is payroll deductions for civil service employees and there is some talk that maybe this will not be available. This is very important to the credit union system, not only provincially but federally, and managing a federal credit union, there was talk of that there as well at one time, but we think that is an excellent way for people to save. We think it is an excellent way to look after obligations. Somebody gave statistics on mortgage loans, what percentage has to be used each month. We find that payroll deductions are just a great way for our members to look after their obligations and we would not want to see anything done to cancel that, at least without an opportunity to make representation to the government.

Those are two of the major items. One thing I think you also have to understand is that when we talk about locations and implications of taxes, when you have the number of locations that we do have in the province of Ontario, anything that impacts even down to municipal taxes has an impact on our bottom line so that even the health tax that was put on—when you look at the number of employees we have who used to be paid for by the employees and ourselves, 50-50, in some cases is now 100% paid by the employer. I think the gist of our whole brief and discussions is that we are much larger than a lot of people in this province believe we are and we have more to do, but we need to have discussions with the government and not be forgotten.

We had an opening of a building not too long ago in Mississauga and Mayor Hazel McCallion made a comment about how she did not need to borrow any money from the system, that Mississauga was in a positive position. One of the members of the government who was cutting the ribbon responded, "Well, Hazel, maybe you can put some deposits in the credit union system." Perhaps we could suggest to the provincial government as well, that if you have some loose cash laying around for a period of time from time to time we would be glad to take it off your hands and pay you a fair return. This gives a chance to bid on it and we would be pleased to serve you.

**Ms Mac Donald:** That completes our presentation and we would be very pleased to answer questions.

**Mrs Sullivan:** I wonder if you could review in some more detail the stabilization and rehabilitation services that are required. Given that the major part of your problem occurred during the recessionary period and the period of high interest rates, what do you see in the future as a result of this particular recession and continuing high interest rates?

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**Mr Hanstead:** On the stabilization and rehabilitation right now, the credit union system has really done an awful lot over the last 10 years to straighten out its affairs and those that were not doing as well as the others. I would suggest we are probably coming near the end of it, but we are going to have to do some maintenance and look after things in that way. We have some outstanding obligations



with some credit unions that just cannot recover on their own and they are going to have to be helped by the total picture. As far as that part goes, we think that is basically under control and our major concerns of the past are looked after.

How are we doing now? What we have learned from 1980, 1981 and 1982 is to be better managers. I think anybody who goes through a difficult time learns to be a better manager. The programs we put into effect across the province for matching our assets and liabilities, building reserves—which I have found very strong over the last couple of years—etc., have enabled us to put into place that which has to be in order not to have the problems we had in the past.

I am not saying that we are not going to have a bad problem from now to now. I do not think any financial institution can get away from that. Even with your major chartered banks, once in a while you hear that a branch here or a branch there is not working very well and they close it up as it is. What happens with those institutions is that if something happens within one of the major chartered banks, it never really shows up directly on the bottom line because it is just a part of a branch system.

However, within the credit union system, because we are individually chartered with different bonds of association, if one of them happens to have a problem it becomes very knowledgeable. I think we can take the Toronto Board of Education Staff Credit Union from a few years ago that got off to the side and started to build its own Las Vegas in northern Ontario. They say those things might happen from time to time, but we feel very confident that with the risk management programs and with the stabilization programs in effect, this present recession will not have an adverse affect on us unless you tax us too much.

**Mrs Sullivan:** What is the current relationship with OSDIC?

**Mr Hanstead:** OSDIC is a separate government agency. It is the deposit insurer. I think there is one representative from the Fédération des caisses populaires on that board. That is independent of the credit union system. That is one reason why we said that we should have some help with this, because we have not had any input into it. It has been run on its own and very independent of the credit union system. It has been more of a policing and repair depot than what we think it should be: stabilization and rehabilitation. Stabilization and rehabilitation starts long before there is a problem. It starts in the training of the staff, the education programs you have, the courses and everything else like that allows us to train the people in some of the credit unions so they can manage properly.

**Ms Mac Donald:** I think the shareholders of OSDIC are credit unions, and normally in other corporations shareholders have the right to elect the board of directors. However, with OSDIC the board is appointed by cabinet, by the Lieutenant Governor in Council. So while credit unions have the responsibility for paying OSDIC's bills, they do not really have the opportunity to say how, or manage how, OSDIC conducts its business. There is the right under the act for Credit Union Central, for instance,

to have one of its nominees appointed to the board. However, as Warren mentioned, the government has not appointed central's nominee for a good number of years.

**Mr Neville:** Just in response to your question on what we expect to happen during this recession, I think it is important to note that when the deficits did occur in credit union the reserve levels legislated at that time were 1%, and now it is on a schedule to get them all to 5% by 1997. Right now within the system, the average reserve level is approaching 3% and 250 out of the close to 1,600 credit unions are at 5% or better in reserves. So we do not expect it to have the same impact.

**Mr Hanstead:** In fact back in 1981, if I have the right year, the net reserve position on the system of Ontario for the credit unions was a negative position. We came back basically on our own from a negative position to close to 3% reserves and scheduling 4% to 5%.

**Mr Phillips:** I am just chuckling to myself about the Toronto credit union because during the election one of those principals rolled his window down as I was campaigning and yelled he would not support me and had told all his friends not to, because I would not give him a hand on getting a licence again, I guess.

My question really is whether the credit unions have a kind of a perspective on the economy. We have had quite a number of groups before you, I think most have felt that come the middle or the latter part of 1991 we are heading out of the recession in the province. You are very close obviously to a lot of people and I am just wondering whether the credit union has a perspective on that or not. My other question is that I think one of the challenges will be pools of capital for businesses, whether they will need help developing jobs in the province and whether the credit unions see themselves playing a role in that or not.

**Mr Neville:** I guess on this first part of your question with regard to the economy and projected outlook, we get input from all of our credit unions, but we really do not take a stand on the economy or turn around and say that the government should be doing this or the government should be doing that. As I say, for the most part we are self-help organizations and we worry about the economy. We worry about loaning money to our members, in effect, and helping the members in the areas when they are in trouble.

Do we have an outlook as to when the economy might pull out of the recession? I guess not a prediction, but I hope that, yes, it is towards the end of the year that you are looking better.

**Mr Phillips:** I did not know whether the Central Bank tracked anything or not to sort of give the members an indication of how you are feeling about it.

**Ms Mac Donald:** Contrary to the situation with some other financial institutions, we do not have an official internal economist, although we do have someone who does a kind of keep the board abreast of things. That is why we have included notes that were prepared by our federal—

**Mr Phillips:** I thought they were very thoughtful too.

**Ms Mac Donald:** Thank you. I think that in what they do cover they appear to be very similar to what the Treasury



as in his own economic outlook. They are not as extensive as what is covered here, but I think basically they are similar.

**Mr Phillips:** Pool of capital: Is there any—

**Mr Hanstead:** I guess Central has a lot of liquidity right now, but we need that also as a backup if we have any particular sector that requires funds in a hurry. But credit unions, as Bruce said earlier, are prepared, in local areas where there is a need for capital in small businesses that the local credit union cannot handle itself, to do it by going to Central and syndicating loans. Yes, we are prepared to do that, but we are also going to be moving cautiously. They have not needed our capital for some years, some people, but when it gets tough getting it somewhere else, then they want our capital. We are prepared to work towards that and do whatever we can. We are interested where we are.

I think you can just take some of our track record, and we also go into areas where other people have left, for whatever reason it might be, to make sure services are provided. There was one spot up in the Georgian Bay area where the bank pulled out a few years ago and the credit union went in. I also know it from my experience at National Defence Credit Union. You think it is strange, but the chartered banks pulled off the bases at Kingston, Borden and Petawawa. Borden has maybe 6,000 people on it and Petawawa about 8,000 people, and they pulled the banks right out. There are no services to those people at all.

Our credit union went in after that. It is not easy to start up a financial institution from base roots and it costs you money to do it, but our credit union was dedicated and went to those three bases and made sure financial services were there. I think there are other examples all across the province where that has happened, if we go up to northern Ontario or Dryden and Vermilion Bay and to Hudson and a few other places like that to provide those services when nobody else was there.

**Mr Neville:** We are not major—

**Ms Mac Donald:** In fact we are restricted in the percentage of assets that we can put into commercial bonds, and it is an area—

**Mr Elston:** Some more so than others.

**Mr Hanstead:** Some more so than others, but that is a different subject matter. When you get to talk about legislation rather than just on the economy and where we are going, we will be pleased to come back again because there are things we would like to do, but we do have a need for our legislation to be updated, and perhaps when that happens we can serve more people.

**Ms Mac Donald:** In another forum we are asking that some of those things be changed.

**The Chair:** Are there any other questions on this presentation? If not, thank you very much for your presentation.

**Mr Hanstead:** Thank you. I know I spoke fast, but we did not go much over half an hour.

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## ATTRACTIONS ONTARIO

**The Chair:** Our next presenter is Attractions Ontario: Don Dailley, past president.

**Mr Dailley:** My name is Don Dailley. I represent a small but important association in the province called Attractions Ontario. We have just over 100 members and they range through most of the attractions you would be familiar with, including the government and non-profit ones, together with the private and commercial attractions.

We have a problem we are going to try to stick to—one point this morning, if I may. It is a problem that is not well understood by government. That is the problem of the amusement taxes that are charged in the province.

The opening line might be that capital punishment—you may be surprised to hear that today—is when government taxes commercial operations to get the capital that it needs to go into business in competition with you, and then taxes the profits on your business in order to pay for its losses. That in part is what I am here to talk to you about.

The recession has hurt people, no question. In Ontario we are struggling against high interest rates, an overvalued dollar, the free trade agreement and unfair taxes generally speaking, not the least of which is the GST. I am here to talk about unfair taxes, the amusement tax being one.

Ontario's tourism is hurting. A larger and more democratic economy must share both the benefits and the burdens of change—I would like to talk about benefits and burdens—and everyone must look beyond the recession to build a sound recovery, no question. We all must be more creative to help plan for new jobs and new investment. I am glad that I have a chance today to bring up some of these issues.

I would like to talk about recovery and new investment and more new jobs. Attractions Ontario has suggestions to save this government substantial money, which if implemented could be reallocated, hopefully, to the important tourism marketing initiatives.

**Hon Mr Philip:** Now you have our attention.

**Mr Dailley:** Do I? Finally. Good stuff. Okay, unfair taxes: The sales tax on admission takes an unfairly large share of the attractions' profits. The tax exemption level places the Ontario government in a price-setting role, a role that surely was not contemplated or considered desirable by government.

The tax exemption level, at \$4, has not been increased to keep pace with inflation. Under benefits and burdens, the exemption of the public sector attractions is competitively unfair to the private sector. The sales tax on admissions has resulted in the deterioration of the Ontario tourist attractions. The total amount of admission tax paid by Ontario's tourist attractions does not represent a significant revenue source to our province.

Regarding more new jobs, the amount of and method of admission taxation has a significant detrimental impact on the development of new tourist attractions and the resulting capital spending and job creation.



I am thrilled to be here, and what I have to say is less important than what you need to hear. So without any further ado—you have got copies of our briefs—I would like to answer any questions you may have regarding the amusement tax.

**Mr Sutherland:** I am in need of clarification. You said the public sector attractions do not charge the tax, or do they absorb it some other way?

**Mr Dailley:** The tax is an oddball thing. It came out of the hospital tax, going back many decades. My attraction is African Lion Safari and I can speak more directly about it than I can about many of the other major ones. The attractions with which I compete, for instance, Ontario Place, the Ontario Science Centre and the Royal Ontario Museum—marvellous attractions in this province—do not have to collect this tax from their visitors. I have to collect it from my visitors coming to me. That is obviously an unfair distortion in the marketplace. It creates a very un-level playing field.

Also, non-profit attractions which are not government-funded do not have to collect this tax from their visitors. An example would be, for instance, Casa Loma. So you look at a whole range of attractions sitting at about the \$7 to \$7.50 level, and the publicly funded ones such as Ripley's Believe it or Not—let's see; I have a list—Tivoli Miniature World and others have to collect the tax from their visitors, and yet the Ontario Science Centre and Science North and these other ones do not. They sit at about the same price level. Does that help you?

**Mr Sutherland:** Yes, it does. If I may just do a follow-up, you said the \$4 has not kept up with inflation. Are you recommending that the exemption go to a specific amount?

**Mr Dailley:** Specifically, our recommendation is as follows: Although this tax is a pitfall of many, many inequities, we recommend that the exemption level be raised to \$7.25. We have a chart attached—I assume you have a copy of this and have read it. As you see from the chart that is attached, this will maintain the value of the \$3 exemption level when it was introduced in April 1977 through to December 1990, and we think this is the only ultimately short-term fair solution to the government.

This does not address all the inequities of some attractions which compete with each other having to collect from their visitors the tax and others not having to. It is not even a public-private discussion, because the way the legislation is written is so specific in what is included that by nature of taxes themselves, I am told, many other attractions which were not contemplated when the legislation was last rewritten, visitors to them are in effect tax free. You get the anomaly of water parks, because they are not listed, not having to collect from their visitors.

So you get water parks at \$14.95, \$16.95, in that range, not having to collect any tax at all, and you get an admission at Marineland at \$16.95 for an adult collecting 68 cents from their visitors; or African Lion Safari, my own, on an admission of \$11.95 having to collect 89 cents from our visitors. So it is really a minefield of problems in the tax, some of them being excluded because they are non-

profit, government-funded, others because they were contemplated as potential attractions when the legislation was last rewritten.

**Mr Sutherland:** I think that might be a good issue the Fair Tax Commission to examine when it comes fruition.

**Mr Dailley:** I think that is a marvellous initiative frankly, that they would even contemplate this.

**The Chair:** They are going through the process at time of choosing the people to be recommended to standing committee on government agencies, people would be on that Fair Taxation Commission.

**Mr Phillips:** That is a contradiction in terms, any fair taxation.

I am trying to figure out your recommendation. I must have forgotten to read it.

**Mr Dailley:** Let's just start in the more recent history. It was last updated to the \$3 exemption level. What that means is that anybody charging \$3 or below on an admission does not have to collect the tax from their visitor. That is what that meant then. That was raised in April 1977 to \$3.50 and was raised in May 1983 to \$4. So we are sitting with a 1983, \$4 exemption level. We recommend that the exemption level be raised to \$7.25. This would bring it just using inflationary factors, CPI generally, to where the \$4 level should be. We are saying to you that we recommend that as an immediate short-term way at least to give some kind of relief to the tourist attractions in the province, those that do have to collect this tax.

**Mr Phillips:** But you are you not recommending that the publicly funded attractions also pay the tax.

**Mr Dailley:** There are many pages in our brief. Part of that says, if I may just find it quickly here: There is a problem in this, in that caught in this amusement tax are not just the tourist attractions but also sporting events and performances and movie theatres. One of our recommendations on the long term is that this whole tax be reviewed and that the tourist attractions themselves be exempted from this tax. We realize that that cannot happen quickly. It is going to be a complex issue and difficult to do. It is going to take people with some understanding and leadership who are willing to try and work their way through this amusement tax minefield. The short-term recommendation is that the admission tax-floor be raised from the 1983 \$4, this spring in the budget, to \$7.25.

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**Mr Elston:** I want to apologize to the presenter, because we do not have your presentation yet. We are about to receive it at some point, so if we are looking rather blankly at your recommendations it is because we do not have it.

I was not sure exactly how far you have gone on beyond the issue of the amusement tax. I know it is very confusing. Some of the suggestions Mr Sutherland made, for instance, are good ones and some of the things Germain has said are good questions as well. Could you give us a bit of a capsule of what happened for your past year as a tourist operator in Ontario in terms of your competi-



attractiveness, because you are located in a fairly strategic location where people could opt to go, I guess, into the US or whatever. Could you give us not a personal history but observations which might tell us a little about the industry of which you are a member, comparing that to the types of attractive options somebody might have south of the border, for instance, or something like that?

**Mr Dailley:** I think I understand the question. One of the last good years in the industry was 1988; 1989 started to see some changes in travel patterns by Canadians, Ontarians and Americans; and this year just past, for the first time, more Ontarians left the province than Americans came in. You probably read that in the paper; it has been in many times. It was the first time ever but it has been a number of years in the making. Some of these are made-in-Ontario problems or even made-in-Canada problems, if you will, and that is even before the GST has had any effect.

Many of the good, valid Toronto attractions, publicly funded or private attractions, where they saw admissions drop after 1989 in the 8% to 12% range, they were dropping last year in the 15% to 20% range. Part of that is blamed on the Toronto's designer tax, the concentration tax, which has had an effect on the room rates, not much question. Part of it is just the general travel trends, perhaps participated in the GST, in part by Canadians travelling to the factory outlets in the States, and because they have to stay for 48 hours to bring back their 300 bucks they are staying over, staying in hotels down there and making a holiday out of it and visiting attractions out there. So if they are at Darien Lake one weekend, are they at my attraction the next weekend? Probably not.

So you are seeing some really deleterious trends. It is aggravated in large measure by tax issues, although I want to keep away from the broad if I can, and deal with this particular issue, which is very worrisome to my industry segment in tourism, the attractions.

**Mr Elston:** Although the amusement tax causes a great deal of concern, and the issue of competitive stance between you and someone funded by the government—I understand that complexity. I presume, though, that if I were going to take my family, as a sort of uninformed member of the public, I probably would not choose to go to the Science Centre and not to go to yours because I did not want to pay the amusement tax.

**Mr Dailley:** You are not unaware of it coming in the State. You look at my value and say: "African Lion Safari is \$11.95. Is it worth it or not?" Whether there is GST in there, amusement tax, and whether it is 8% or 10% is of no interest to you. You pay your \$5.50 at the Science Centre in Toronto, and you do not realize that there is no tax in there and you also do not realize that that is probably one third of what that attraction should be charging. They could easily get \$14.95. It is a marvellous, marvellous attraction.

**Mr Elston:** In terms of competitive value, the Science Centre being subsidized by various things, including not having to collect the amusement tax.

What role would you see the gasoline tax, for instance, playing in your business? Everybody has to drive to the Lion Safari. I have been there, actually, a couple of times.

**Mr Dailley:** I hope you had a good visit.

**Mr Elston:** It is a great day. It is a great place for the kids, and adults too, I might say. What about the other tax issues you face as a—

**Mr Dailley:** Road tax is another one, the high cost of gasoline. Also, liquor taxes are, I think, impinging quite heavily on the attractiveness of tourism in this province. When you hear stories that of Darien Lake's 2,000 campground sites, half of them are filled every weekend with Ontario licence plates—if that is in fact totally accurate, I am not sure—you have some pretty serious competition right across the border that does not have the amusement tax, has lower alcohol taxes and has also smaller hotel taxes. Just put this all together and people can have a marvellous weekend in northern New York state or in Michigan and, frankly, in other places, for half the price. And it is going to get worse.

We employ one pile, thousands and thousands of students, who make a lot in our industry, the tourism industry, high school students. They are the ones who are going to end up losing their jobs if we have to start trimming seriously. But worse, if you start to trim your staff levels, you affect your service level. People coming in cannot get a hot hot dog, they cannot keep the washrooms clean, and people are going away upset. Plus, you have the high price and you are not delivering the goods at the other end.

It is a real dilemma we face, and it is not just in the attractions. I am talking broad-based comments to reflect the whole tourism industry. It is in bad straits in this province right now. Also, incidentally, tourism on the east coast and the west coast is not suffering some of these same problems that we are here. In many cases it is an Ontario or a southern Ontario problem.

**Mr Elston:** There are a lot more questions that would probably be better directed, I presume, when the presenter comes back to the Fair Taxation Commission. Perhaps some of us members will be able to likewise participate in that, because it looks like taxes in general are really working contrary to what your business needs at the moment. In fact, you probably would find it a significant impediment if there were increased and accumulated deficits incurred to go along with high taxes, I presume.

I wish to thank you for the presentation. I look forward to seeing the brief in written form and then we will go from there.

**Mr Dailley:** My apologies. I should have come better prepared. I was advised. I did talk to somebody that this brief was on the Treasurer's desk and I was advised that you would all have had a copy last Friday. My apologies. I could have easily had them here for you, at least so you had them in front of you today. It makes it difficult.

**The Chair:** The clerk will make copies of that brief and it will be circulated to all members of the committee. I am sorry that happened. We would like to thank you for your presentation and your input this morning.



**Mr Christopherson:** Mr Chairman, while the next delegation is being seated, could I ask that the committee consider what is going to happen this afternoon in terms of process? Our submissions are finished at 11:30, as far as I know, and we are scheduled to start this afternoon some discussion on the draft report that was circulated.

**The Chair:** Before you continue, we have another order of business that precedes that. We have a letter from the Union of Ontario Indians, who have sent a copy of their brief but have now requested that they be given a chance to do an oral brief. They originally indicated they were not going to give an oral brief, but now they are requesting an oral brief. The deadline is well past, but I need direction from the committee.

**Mr Phillips:** Are they here now?

**The Chair:** No.

**Mr Christopherson:** Can they be here this afternoon?

**The Chair:** We can find out.

**Mr Phillips:** I would hate to not hear them.

**Mr Christopherson:** I feel the same way. The important thing, though, is to get it as soon as possible so that their submission is relevant to our report, rather than coming after decisions have been made.

**The Chair:** On behalf of the committee, would it be all right if I recommended to the clerk either this afternoon or tomorrow morning?

**Mr Christopherson:** Fine. We have no problem.

**The Chair:** Okay.

**Mr Christopherson:** Having done that, if I could now return. I just wanted to ask—and ask at this point; it is not a motion yet; it may be—that we break at 3:30 today to allow the different committee caucuses to review some of the material. We had a meeting this morning, but it really did not give us enough time to get some of the detailed material that we would like to present to the committee. We would request the co-operation of the other two parties in looking at a 3:30 adjournment. We are prepared to have some general discussion this afternoon, if the other parties would like, and we would be prepared to start detailed discussions tomorrow morning. If there is consensus, Mr Chair, I would just ask that you direct that that is what we do.

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**Mr Phillips:** Hearing nothing from them.

**Mr Christopherson:** Yes, the Tories are certainly being co-operative today. It seems to help when they are not sitting there.

**The Chair:** We all appreciated Mr Stockwell's comments late Thursday afternoon, too, did we not, Mr Phillips?

**Mr Phillips:** From the fact he remains silent now, I assume Mr Stockwell will be—

**The Chair:** Silence means consent?

## CANADIAN BANKERS' ASSOCIATION

**The Chair:** Our next presentation is from the Canadian Bankers' Association. If you could begin your presentation, please.

**Ms Sinclair:** Thank you for the opportunity to appear before the standing committee today. I would like to introduce my colleagues. On my right is Al Cooper, who is vice-president of finance and financial affairs, and on my left is Margaret James, who knows everything about that Al and I do not know.

We had brought a brief with us. I believe it may have been circulated to you beforehand as well, but there are extra copies available for the members.

I want to make just a couple of introductory comments if we might. First, a few words about our association. We are the association representing the Canadian banks in this country, not the trust companies, just the banks. All banks are members, both foreign and domestically owned. There would be about 50 foreign banks and seven domestic banks who are members of the association.

Between 40% and 50% of our business is in this province. We have about 3,000 branches here. We have 89,000 employees—that would be half our employees—on payroll in this province. Our total payroll at this time would be about \$2.6 billion.

We make a significant contribution, we think, to the provincial economy, both in the numbers I have just cited for you as well as in the revenues we bring to the province. Our estimate is that in the last year we accounted for about 8% of the province's corporate capital and income tax, and we contrast that to being about 1.5% to 1.8% of the provincial economy. In addition to the taxes, the income at the capital level that we bring, we also pay significant other taxes, which we would like to return to in a few minutes.

We are very much part of the communities in this province and this country, both in terms of the corporate participation of our members and the participation of employees as volunteers and as donors. To give you one small example, we would be the largest private-sector contributors to the United Way of this particular city, making very substantial contributions. Needless to say, I think we are fairly proud to have the involvement that we do.

I want to go on to a couple of other points. The first one, which I think is clear from our paper and has certainly been part of the theme of our meetings with the province in the last couple of years, is that we believe the province is walking a fiscal tightrope. It is in a situation where, despite very large increases in the provincial economy and in provincial revenues, it did not manage to work itself out of a deficit situation during a number of years of economic good times. Now, as the economy slips, there is not the kind of flexibility one would normally like to have to be doing the things one likes to do as a government in a deficit.

We understand this government's priorities and I think it is fair to say we accept them. We hope that a longer-term view will be given by the government as to how it would see its revenues and expenditures projecting forward a number of years as the province works its way out of the recession and returns to relative good times.



The debt service ratio of the province is, we figure, probably around 12% to 13%. The estimates, which were based on a break-even in this past year, obviously no longer apply, so the debt service is probably going to be up around 13% in this current year. While that is not the level of the federal government, it is none the less the level that we think one has to be fairly concerned about, given the times that we are in.

The second point that I would like to make is that if one is going to be concerned about the competitiveness of businesses in this province, there is not an awful lot of room to move on the tax front. We pay corporate taxes which, when you go right across industrialized nations, are more or less on par, maybe a little bit higher. But when you add other tax loads, we are probably at this present point in time in a fairly uncompetitive situation as a business community if you draw a broad brush of comparison with our industrial competitors.

If you will permit me, Mr Chairman, I might ask my colleague, Mr Cooper, to elaborate on that point, as well as on a couple of others which relate to the competitiveness issue. It is an issue that we think has to be considered very, very carefully in the current economic situation, because while one would like to go and be fairly generous on the social front, one does not at the same time want to cripple one's ability to generate the wealth that does lead to the ability to make these kinds of payments as economies go into downturns.

**Mr Cooper:** For the chartered banks in Canada, or in Ontario particularly, as Helen mentioned earlier, 50% of our staff, 50% of our domestic business is in Ontario. So like the province of Ontario, we have a very vested interest in the health of the economy, because as the economy of Ontario prospers, so will our membership. We are very interested in and keenly focused on negative consequences that could arise if the current situation of high tax loads is exacerbated by adding on to that burden. We already are seeing a number of plant closures, business closures as a result of the recession. We are seeing a lot of movement out of the province of Ontario, both in the context of small business as well as others, and it is questionable as to whether or not the province can regain many of those jobs that have left.

We believe that really the only route for the province of Ontario is that which has been explored by others, particularly in British Columbia and other provinces, which are keenly focusing on their expenditure levels. We as an industry are prepared to sit down with the province at any time to assist in any way that we can with means and methods to reduce the expenditure load of the province in terms of how it handles its business. We have done so with other provinces and we certainly are in the process of doing this with the federal government to assist it in terms of facilitation of its business in a way that perhaps can save it money. We certainly make the same offer to the province of Ontario.

An issue that is difficult for us to deal with in terms of the competitiveness of the province of Ontario—and particularly Metropolitan Toronto, which is of course the mainstay for our head office and regional office busi-

ness—is the fact that the combination of recently introduced taxes such as the employer health levy and the corporate concentration levy, which were introduced a year or so ago, have made locating for business, particularly the financial sector, in Metropolitan Toronto, almost prohibitive in the context of other centres in North America.

Now, we understand that the assessment in the city of Toronto will be reviewed and that there is a move to put it on a market value assessment. From what we have seen, the result of that market value reassessment will be a shifting of the tax burden to the commercial sector, and the analysis that we have seen would make the financial institution's tax load for business and realty taxes in the neighbourhood of \$13.50 a square foot, which would make it the most expensive premises in North America. This does not help when we combine it with the taxes and the burden that Ms Sinclair mentioned earlier. So we look, and hope that the government of Ontario can look, at means of addressing and streamlining operations and fiscal restraint in order to not be forced into a position of increasing taxes.

#### 1150

The other issue that we would like to touch on briefly and bring to your attention is the issue of harmonization. I will not go into the detail in terms of the general sense, but certainly for national corporations dealing in multi-jurisdictions, harmonization is a rather critical issue for us in terms of reporting and a variety of other kinds of regulatory fronts. On the tax front, we are faced with of course the GST and the provincial sales taxes.

A number of provinces, as you know, have already declared their intention to join in a form of national sales tax, or are in the process of exploring it. Unquestionably the province of Ontario will be exploring the same option that is available to it. We would plead, particularly from the financial sector, which is the provider of both exempt as well as taxable services, that if you do contemplate joining in with respect to a national tax system, you give the financial sector the opportunity to work with you in order to ensure that the payment flows work smoothly and that we do not run into a conflict and exacerbation of the current administrative burden that is foisted on the financial sector.

With those few remarks, we will be pleased to entertain any questions you may have on our brief.

**Mrs Sullivan:** I am interested in the remarks you made relating to the capital tax rate. I wanted to refer back to the New Democratic Party's Agenda for People, which was its election platform in the last provincial election, where it suggests that a minimum corporate tax could be imposed to raise approximately \$1 billion in additional provincial revenues.

I wonder, first of all, if you view the existing capital tax as a minimum corporate tax, and what you feel the impact of that \$1-billion tax would be on the competitive nature of our industrial and service sector base.

**Mr Cooper:** The first part, we very much view capital tax as the minimum tax. As a matter of fact, we hope that the province would entertain treating it more appropriately as the minimum tax, as they do at the federal level, as well



as in British Columbia, where the tax is actually creditable against your income tax paid.

Capital taxes put financial institutions in a quandary. It is a tax virtually unique to Canada and one that the rating agencies look at rather pointedly when they are looking at banks' international competitiveness, because as we are forced to gain more and more capital to strengthen our position, in accordance with the Bank for International Settlements rules and our regulators, the greater we create the strength for the protection of the depositors and the shareholders, the higher we are taxed. So it is a unique tax and one that has nothing to do with profitability. You are going to get whacked whether you are doing well or whether you are not doing well, and it can certainly add dramatically to problems that exist in the financial sector.

As for the tax burden here in Ontario, the rate is relatively low compared to other provinces at this point in time, but again, we do not get the creditability that is prevalent and in practice in other jurisdictions. It is one of the reasons, quite frankly, that there is such a concentration of head office and staff and deposits in the province. As you know, the calculation of Ontario's share is indeed a function of where banks choose to locate their employees and the situs of their deposit base. If it moves, so does the share.

**Mr Phillips:** A couple of questions, and then I guess I will get your comment. You said the debt servicing has gone to 13%.

**Ms Sinclair:** That was a guess, the projection based on a break-even budget this year.

**Mr Phillips:** How do you calculate that servicing?

**Ms Sinclair:** It would be your interest costs as a percentage of your provincial revenues.

**Mr Phillips:** It may surprise you to know that for the first time in at least a decade, debt servicing is lower than 10% for this fiscal year. It has gone down consistently and the Treasurer just released his numbers the other day. Revenue is \$43.9 billion and public debt interest is \$4.3 billion.

**Ms Sinclair:** I thank you for that clarification. My numbers came out of the Dominion Bond Rating Service, the bond rating projections.

**Mr Phillips:** I rely on the Treasurer's numbers.

**Mr Christopherson:** A faith well placed.

**Ms Sinclair:** They may well be right. We may be using a somewhat separate base. The projection based on the break-even budget was that debt service in the province would go from about 12.2% down to 11.8%. My only point was that given that the fiscal situation did not materialize as planned, the number is clearly higher.

**Mr Phillips:** I did not want to spend a lot of time, I am just quite proud of the fact that every year it has gone down, and this year, at least the way we look at our numbers from the Treasury people, it is for the first time in at least a decade less than 10%. The feds' is 34%, I think, of revenue.

**Ms Sinclair:** The feds' is around, yes—

**Mr Phillips:** It is 34% of revenue and heading up that was not my question; that was just a comment cause I think having been in the former government watch these things fairly carefully.

Just three comments. One is, I realize you do not the employer health tax. It raises, I guess, about 20% cost of health. It is about 2%, I think, of payroll for people. If you were operating perhaps in the US and paying those premiums all yourself, it might be 6% or 8% of your payroll. No one likes any tax, but if you look at some of the things that maybe gives you a significant advantage vis-à-vis your US competitors, I suspect that might be direct health payments that you make. So I would personally be cautious of that one.

I am interested in a couple of questions. One is just to help me a little bit, whether there is more of the chartered banks' profits being recorded offshore than would have been the case five years ago or not. There is a bit of a perception out there that some of the major chartered banks increasingly have their profits outside of Canada as a percentage, than in Canada. I would be interested to know whether that is just a misconception or whether there is any truth to that.

Second, we have had at least two of the banks in Ontario just looking at your prognosis for the economy in Ontario and what the collective banks are saying now about the economy. As I said to other groups, we have had expressions that we may be out of it in mid to late this calendar year—whether that reflects all of the banks' perspective or not.

Those are really my two questions. Is there a growing offshore profitability for the banks relative to Canadian profitability and, second—

**Ms Sinclair:** Could you repeat the second question please?

**Mr Phillips:** Yes. What is the Canadian Bankers' Association prognosis for the Ontario economy? We have heard, I guess, from two of your members directly.

**Ms Sinclair:** The answer to your first question is that there has been a fairly significant drop in the percentage of our business which is offshore. Prior to the 1981-82 recession, around that period, it would have been in the 40s for everybody and the high 40s for a couple of the banks. At the current time it is down around 30%.

**Mr Phillips:** Of your profits are recorded offshore?

**Ms Sinclair:** No, of our business. Now, the profits through the 1980s, up until last year, were obviously depressed because of the Third World debt problems. Last year for the first time the rate of return on our international business was almost exactly the same as our domestic business. It came up again the same time as our domestic profitability dropped and the two more or less met last year for the first time in a decade.

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**Mr Phillips:** The recording of profit. I have this impression, that may be incorrect, of the Cayman Islands. Is that a declining portion of—



**Ms Sinclair:** Very, very much declining. It has been right through the 1980s. It would be fair to say that in the 1980s, the banks focused very heavily on the development of their domestic business, and also fair to say that, as they looked about the future, they say you build your capital at home and you go abroad very selectively and only where you can earn an adequate rate of return. This is where our system differed substantially from, say, the Japanese and American banks over the last decade. We did not go into these Euromarket deals where you could not get a rate of profit. We said if there was not an adequate return we were not interested, and we backed away from them, which reflected, then, in our earnings and our balance sheets.

Some government officials were very critical and said that the banks were abandoning their international operations and were turning their backs on the global marketplace. I guess our point today, as we watch the Japanese and the Americans and the British follow our example, is that at the only point of competition in the global marketplace is, first, who survives? Second, have you got capital strength? To say your international assets are growing faster than your domestic may mean nothing at all in terms of your global competitiveness. In fact, what we have learned in the last half-decade is that if you were in that position, your global competitiveness was probably going downhill rather than uphill.

The answer to the second part of your question, I think, could be that, first, the banks feel this province's economy has been very hard hit by the current recession. A number of our members would say to you that we are at a point in the current recession which makes it a deeper one than the 1981-82 recession ever was in this province. The reverse, of course, would be true in the west. We are seeing some buoyancy in Alberta and British Columbia even today. Maybe it is slowing down, but there is considerable relative buoyancy in comparison to the Ontario economy. It is a bit of a teeter-totter in that sense.

The point that Al Cooper made about the loss of competitiveness, the closing of manufacturing plants, which worried us—we watched our customers even before the recession establish new plant capacities south of the border—that point, of course, has been exacerbated during the recession, although I think it is fair to say that some of the problems we saw in the manufacturing sector in the current recession have not been present in this one. For example, we did not see a problem of excess inventory, which is a terribly, terribly serious problem. That is where you are growing, as a manufacturing business, and that has not really been the big problem in this recession.

In terms of looking forward, I think there is a very high focus on where interest rates go and a hope that interest rates can continue to move downwards. Obviously, there is also some focus on the level of the Canadian dollar, though it is understood that in an economy that is as indebted as ours is, one does have to attract the foreign capital to finance the debt. The debt cannot be financed at this time by external savings. But there is some cautious optimism, I think I could say, that by midyear the Ontario economy will have begun to turn.

**Mr Phillips:** This calendar year?

**Ms Sinclair:** That is right.

**Mr Elston:** I was interested in one thing. Mr Cooper and Ms Sinclair as well had indicated how much of a presence the banks have here in Ontario. That is quite true. I think you went on, Mr Cooper, to say that the rates of occupation of rental space and taxation and all of those things, of course, will contribute to either a continuing presence or, obviously, a possible move of some of their head offices, potentially.

When you talked about the amount of capital in savings and everything that was to be attributed to a corporation's presence in Ontario, I was aware that it was about to be affected by a move in Quebec, where they would attribute or ascribe to a particular institution a minimum amount of capital presence in their profits, and in fact that could damage the locatability of that institution to Ontario or in fact to BC or wherever, because if you were going to pay a minimum tax in Quebec it might make it worth while to have a minimum amount of presence there.

Can you tell us whether there are any other jurisdictions doing things like that? First, for the importance of this study, maybe you can verify whether that is correct—I would not want people just to rely on my information; second, whether any other provinces are trying to make institutions in Canada relocate to their province by similar means, and third, what the banks intend to do about it, if anything, in terms of fairness inside Canada and in terms of trying to have a harmony among the provinces, which are looking for the presence of large institutions to help fuel our own economies—in 25 words or less.

**Mr Cooper:** We have tried to get the provinces, including Ontario, for the last, oh, I would say, probably six or seven years—there has been virtually an intense almost rivalry, if you will, in terms of issues such as the capital tax, dissatisfaction in some jurisdictions with the formula I was talking about, in terms of how much British Columbia's share should be of bank income and capital tax as opposed to Ontario and Quebec. No one is happy with it. While there have been a number of proposals to look at a fairer way, every time someone is going to give up something so that someone else can get more, obviously there seems to be an impasse and people go away again.

I agree with you. Now what we are seeing is a new attempt to perhaps circumvent the sharing formula, which again is another demonstration that it perhaps is not as appropriate as it should be or as fair as it should be. Most of the provinces—certainly in the western sector, BC—have been going in the opposite way, rather trying to woo financial institutions with respect to dropping capital tax or, where capital tax remains, making it creditable against your income tax. Of course, you are well aware of the rather sensitive issue of the international banking centres and trying to expand the level of activity that could transpire there; almost rewards, if you will, for moving your head office, if you could, to the province. So we have seen some of that. The other provinces, certainly in the west, tend to be following that direction. I would suspect it will be their tendency.



Quebec is very much focused on creating a very hospitable environment, shall we say, in terms of its total tax picture, particularly for the financial sector in general. As you know, their corporate tax rates are the lowest in the country. Their overall package tends to be a very attractive one. I have not seen the detail yet of the minimum tax in terms of what it may mean to banks, in terms of whether it would be sufficient enough to actually cause the kind of reaction you are talking about: "If I have to pay that much, well, then maybe I should move some more people there." We have not completed that kind of analysis, to say whether it will have that kind of effect or not.

**Mr Elston:** That sort of leads me inevitably, although it is slightly off topic, to ask a question about how appropriate it would be to have a Canadian bank headquartered in Quebec if we were not dealing with the Canadian nation.

**Mr Cooper:** We have two of them now.

**Ms Sinclair:** The Royal Bank, the National Bank and the Bank of Montreal, I believe, are all headquartered—

**Mr Elston:** I realize that, but in line with what is taking place, with those sorts of arrangements that are already taking place now from a taxation point of view, there are going to be some very wild practical questions, I guess, to be asked and answered about the economies which are going to be operated under by these banks, because your members all have to show a competitive margin, obviously, nationally and internationally. How do you do that if you are going to be subject to all these jurisdictions even in a more heightened fashion, presumably?

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**Ms Sinclair:** Not to comment on the issue of national unity per se for the moment, but to go back to Al's theme that if you can manage to harmonize your system, if you can do what the Europeans are doing, and ensure that you do not have interjurisdictional impediments to trade, in a very broad definition thereof, then you should not be too concerned. That is really the issue.

We cannot help but be struck by the fact that within this country today, we have greater impediments to inter-provincial trade—some of the ones Al has mentioned—than we will encounter in Europe, in fact, than we encounter today moving across national borders.

I do not think there is any doubt at all that the Canadian banks' commitment to the overall marketplace—I am talking about Quebec and the other provinces—will remain regardless of what happens constitutionally. I do not think that is at issue, but there is a question as to how effectively you can do it and what the cost of barriers to trade actually are.

**Mr Elston:** Not to go further, although that is an extremely interesting line of questions to get into, I have a couple of other places I would like to go with respect to your presentation.

One was an indication that there was not much room for manoeuvring with respect to taxes in the province, although I read—quite quickly, I realize, but read none the less—an interview of our Treasurer in the Sun, which was reported last Sunday, I think it was, wherein Mr Laughren

was saying that there is room for selective taxes in the province of Ontario. I did not go right through and pick out exactly which areas he might be looking at. It seems to me your presentation contradicts that. Would you say that is true, or would you go along, perhaps, with the Natural Resources Association, which said as long as there were no new taxes, you could live with that type of situation?

**Ms Sinclair:** I do not think we are familiar enough across the board with the taxation of other industries to give you a comment about whether there is room to think we tried to impress that in our case, we are paying 8% of your load and we are about 1.5% of your economy. If you see those kinds of burdens in other sectors, I think you do not want to think pretty hard and fast about how much moving room you have and you would want to actually look internationally to make sure you are not doing a global industry sector relative to its international competition. Whether there are selective opportunities, I am not sure we can really help you address that issue.

**Mr Elston:** Just a couple of other quick questions. Mr Rae made a speech a week or so ago wherein he basically made a request that the banks, financial institutions—generally banks, I think we will be seeing—should get into some kind of co-operative partnership with government in helping to shore up our business community. I know you are not responsible for loans on your own, but your association members are. Can you tell us what have been taken by any of your members, or whether the association, in getting together, has talked about forming a plan to develop such a partnership with government to shore up business during this recession?

**Ms Sinclair:** We would see that there is a good coincidence between the Premier's wishes and what in fact is of benefit to our own members. When you have a borrower who is in difficulty, the last thing you want to do is call the loan and have to realize on security. That is a very difficult proposition. We will be releasing a study in about a month's time dealing with the small business sector, which will be, I think, of specific interest, which shows that realization on security is about 60% on average of an outstanding loan. So you do not, as a lender, look to security to recover your position, and that is exactly what you have to do when you pull the plug. So it is really for that reason that we will initially work with a borrower to try and restructure loans. That would be a very frequent action. We will encourage borrowers who we are unsure we think, to support to find alternative financing. Many of them do. Those borrowers who in the end we feel we have to call loans on have really been on our books for about 18 months from the point in time that the problem was identified to the point in time when the loan is called. Those are probably a minority of your situations.

The point we have to make back to government is that if we do not benefit the borrower and we certainly do not perform our fiduciary duties if we keep a company which is not able to make it, if we keep a company going indefinitely. We have about \$1 of capital supporting every \$10 of deposits, and our number one duty is to safeguard the deposits. That fiduciary duty rises above all others.



I think it is particularly at this point in time when you can look to the United States and what happens when you neglect that duty. You see an illustration of how crippled not only your banking system becomes, but your economy. The fact that you are reading in the newspapers today that the Canadian banks have been asked to come in and buy up portfolios of the US banks or to buy US banks themselves simply speaks to the point that you have had an industry which for the last decade or so was not observing its fiduciary duties and has abrogated on prudential lending practices. We do not really think, in that situation, that the Premier is suggesting we ride along.

**Mr Elston:** I just want to follow a couple of points when. In my part of the country, which is Bruce county now—it used to be Huron-Bruce, but I think generally one might say “the agricultural sector”—one of the forerunners of a lot of loans being called is a movement of branch managers, and they bring in the cleanup hitters. I have seen a number of people move in the last three or four months, six months, to new locations, and new people being brought in to take a new look at new loans, particularly in the farming community. It means that there are going to be a number of cleanups.

My concern is that partnership may very well extend to small business at a certain level, but it is not being extended to the agricultural sector, which is in fact worse off now than it was in 1981. In 1981 when the recession began, those people had some stamina built up, they had some deposits, they had some equity. Recovery, although buoyant in some areas, was not buoyant enough in the agricultural sector to meet the needs of sustaining another downturn. What, if anything, has been developed among our association members, or have you talked about it at the association level, to help sustain the agricultural sector, in co-operation with the provincial government?

**Ms Sinclair:** I think the comments I have made about small business do apply to the agricultural sector. In fact, the study which will be released samples many thousands of loans in the branch's files, including agricultural and small business loans. It covers both situations.

We do have a very close relationship with the provincial Ministry of Agriculture and Food. We have had numerous discussions about what can be done to assist the types of borrowers you are talking about. I think our fundamental proposition is the same, though, whether you are talking about a small businessman or a farmer, and that is, you walk a very narrow line between doing what is right, particularly in an economic downturn, from the perspective of helping the customer through a temporary set of problems, you hope, and observing your fiduciary duties to your depositors.

**The Chair:** These questions are very interesting and I'm—

**Mr Elston:** It is almost crucial to the people in my area. If they cannot get money, my people go down the tubes.

**The Chair:** I know it is very crucial to people. It is crucial to people all across Ontario in these circumstances. What we are trying to do at this point is to specifically

reference information that we can then pass to the Treasurer.

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**Mr Elston:** My last question was going to be, what are the discussions that they have had with OMAF and what are they going to recommend that we do for agriculture? The whole line of questions was coming sequentially to that.

**The Chair:** Then I will allow you to finish your questions.

**Mr Elston:** Can you tell us what your discussions have been with OMAF and what recommendations you are making to assist the agricultural sector in Ontario?

**Ms Sinclair:** We have not arrived at any firm set of conclusions or recommendations at this point in time. All I can tell you is that we have had an ongoing discussion with them. As you know, in the mid 1980s we participated very actively in that the groups which reviewed farmers' debts were private sector, involving both the banking industry and the farm community, where we looked at the debt situation of individual farmers who chose to bring their cases to the board.

We had some reticence, I should tell you, going into that exercise. We felt that it operated in the end fairly well. In fact, one of the things that surprised us about the whole thing is that we found that the farmers who sat on this board with us in many cases were far tougher than our own people sitting and adjudicating on the cases. But in terms of the current situation that we are in, I am sorry, I do not have at this particular point in time any conclusions or recommendations.

**Mr Elston:** Do you expect to have a recommendation for the Treasurer before he does his budget?

**Ms Sinclair:** We certainly could have a recommendation for the Treasurer if that were called for.

**Mr Elston:** If it were called for. If we, as a committee, ask for it, you could provide that for us.

**Ms Sinclair:** Absolutely.

**Mrs Sullivan:** Could I just have a supplementary on the agricultural question? One of the perceptions of agriculturalists has been that when there is an interest rate reduction program, the bank interest charges are in fact increased because the market will bear a little bit more with the government reduction of the interest rate on those programs. We have heard that on many occasions and I wonder what your response is.

**Ms Sinclair:** The most recent program that we have operated with the provincial government has been in the province of Saskatchewan and I do not think there has been a complaint. The program has involved a certain level of interest rate reduction for the farmer below market rates and the province has absorbed the cost of that reduction. I am not aware of any complaints in the direction that you are suggesting.

**Mrs Sullivan:** It is certainly a complaint in Ontario.

**Ms Sinclair:** It might be of interest for the province to talk to Saskatchewan. We met with them fairly recently—I

am sorry, I should restate that. I met with the people involved from our side. We actually have a meeting scheduled in Saskatchewan for later this month. What I understand to be the case is that the province is very pleased with the way that program is running, and our people feel that it has been a good partnership as well. It may serve as a model.

**Mr Stockwell:** I certainly feel for your position when it comes to calling the loans, etc. You are damned if you do and damned if you don't. If you call the loan, you are damned because everyone screams that you called it too early or there were reasons for the losses and so on. If you do not call the loan, you are just allowing companies that have no hope of recovery to go further and further into debt.

I guess it brings to the debate that competition is the lifeblood of free enterprise, and eventually there are winners and eventually there are losers, and if there are no losers, there are no winners. It is a difficult and precarious position to be in, I understand, and I also understand that you do in fact go a long way.

I have met with my own bank managers and I scream and yell every time they tell me what I have to do, but a couple of weeks later I always think to myself, "Well, that probably makes sense." You eventually in fact do what they advise you to do.

The question I would like to drive to is the debt.

**Mr Elston:** I thought you were independent.

**Mr Stockwell:** I am independent, that is right. Everyone depends on one person—that is who loans him the money.

I have a real concern about the debt of the country, not just specifically the province but the federal debt. I guess politically the problem is that politicians tend to look at the numbers and view the debt whatever way looks best for them. I certainly do not blame Mr Phillips, but you can see him saying: "Gee, I heard the debt is—it's the first time it's under 10%. That's an astounding figure." Except when you realize that, yes, the debt is under 10% for the first time but we have had the best booming economy for five years, revenues have gone through the ceiling and you would almost assume that in the last five years the debt has gone down.

**The Chair:** I hope there is a question here.

**Mr Stockwell:** There is a question eventually. You would almost assume the debt has gone down, except for the last five years it has gone up by \$10 billion.

**Mr Phillips:** Federally it has gone up to \$400 billion.

**Mr Stockwell:** I am not arguing whether theirs has gone up or gone down. The fact is, this debt has gone up by \$10 billion and yet you have people saying, "Gee, it's less than 10%." This is how you get into trouble with huge debts, because people get a little bit of statistics and they start arguing one way and before you know it your debt is higher and they are telling you it is lower.

The question I have is, how important is this national debt and this provincial debt? It seems to me in business is a killer—any kind of debt is a killer—and as it grows will limit your abilities to adjust and change and deal with the marketplace. How important is it for the province and the federal government to get the debt to a more manageable level, in your opinion?

**Ms Sinclair:** Very. The issue cannot be understated. The old thing they used to teach you at school, that in good times government should run surpluses so that it can deal with deficits in bad times, is something that we have moved away from but they still teach it.

**Mr Phillips:** No, the provincial government ran a surplus last year. Make sure you remember that.

**Mr Stockwell:** I guess this is classified as an interjection.

**Ms Sinclair:** They still teach the principle in schools, and when you ask the guys who teach, "What are you thinking when you teach that?" they say: "My mind goes numb. I can't believe I'm saying it, but we have nothing else to replace it with." The theory has not been replaced. The view still is that sound fiscal management in government means running surpluses in good years so that you can run deficits in bad years and so you are not in the position that the federal government is right now with 34 cents on every dollar of revenue going to service the debt and where you can say, "Our operating expenditures are down, our operating expenditures are flat," and it effectively does you no good.

It is a terribly serious problem at the level that the country has come up to. It is one that creeps up at you. The mathematics of it are quite exponential. To dig ourselves out of it at this point in time is going to be truly difficult.

**Mr Stockwell:** I could not have said it better myself.

**Mr Phillips:** The problem is I think we have a management banking group here that does not realize that is what the provincial government has done in the last five years—run a surplus. I am just saying I agree with what you have said. That is what the provincial government did, but no one knows; not even yourselves know it.

**Ms Sinclair:** I am sorry, but we simply quoted the numbers from the bond rating agency. If they are not correct, we will have to go back and look at the other—

Interjections.

**The Chair:** Excuse me, we are starting to overstep here. This nattering can go on for a long time. Are there any other questions of this committee or of this presentation? I see Mr Phillips is—did you have another question to go on the record?

**Mr Phillips:** No, I thought it would be useful to have the budget there.

**The Chair:** Then I would like to thank you for your presentation and information this morning.

The committee recessed at 1229.



## AFTERNOON SITTING

The committee resumed at 1405 in committee room 2.

**The Chair:** Before we begin this afternoon's deliberations on the document, I need direction from the committee as to whether this part of the hearings and the process will be done in camera or open. What is the feeling of the committee?

**Mr Sterling:** My party prefers it to be done in the open.

**Mr Phillips:** That is fine with us.

**Mr Christopherson:** And us.

**The Chair:** Okay, then they will be done in the open. The next item of business then is to move forward on the interim draft report that was made available to all parties last night at 6 o'clock. I guess the procedure for this would be to open it to discussion and to proceed with any amendments or any changes that are deemed appropriate at this time.

**Mr Elston:** Can I just ask a question? Bearing in mind that we are leaving here at 3:30, so that people can really take this stuff under advisement, should we be talking about general format of the report? I do not want to usurp what people are going to be talking about later on in the day. It sounds kind of difficult, but if we start getting into stuff and people have not talked about it, how do we talk about it, I mean, as a caucus, if people have not discussed?

**The Chair:** If we talk about format and so on, that is a useful place to begin and to read through it and maybe make any changes that are deemed appropriate.

**Mr Christopherson:** We are prepared at this point to go through the text, the format. There may be something that we ask to be deferred pending our discussions, but basically on what is here we have some responses to it and some positions. It was specific conclusions of the committee and the recommendations themselves that we were looking for a chance to talk further about in caucus.

Well, Mr Chair, I do not know how you want to proceed. I am prepared, not having gone through this before, just to plow ahead, if you will, and offer up some comments that we have. But if anybody who has been through this process wants to offer up any suggestions or jump in, that would certainly be welcome.

**Table of contents:** We would look to strike the words "answers in" and make the word "partnerships."

**The Chair:** Well, it has been brought to my attention in the table of contents that we had some recommendations over the last little while about taxation, if we want to include a section just to summarize what those recommendations were. Basically this part of the report should be a summary of what was said, as opposed to any recommendations. Any recommendations will be discussed starting tomorrow or the next day.

**Mrs Sullivan:** We have had a lot of recommendations relating to taxation issues and it is appropriate that they be summarized.

**Ms M. Ward:** Under which section?

**The Chair:** The table of contents.

**Ms M. Ward:** As a separate, main category or under a subcategory?

**The Chair:** That is up to you.

**Mr Stockwell:** It cannot be a big deal.

**Mr Christopherson:** Page 1, first paragraph, middle of the paragraph where it says, "although their analysis was not as thorough," our preference would be that "their analysis was not conclusive."

**Mrs Sullivan:** I like it the way it is.

**Mr Christopherson:** So what am I going to do? Every change, do you want me to pose it in the form of a motion, Mr Chair?

**The Chair:** Why do we not discuss it and see what kind of consensus we can build or where we want to go with that. Maybe present what you have as an alternative. If it needs to be a motion, we can do that.

**Mr Stockwell:** May I ask a question? Would it not be better to deal with the committee's observations, conclusions, in essence? Let's deal with those. If we can reach some kind of agreement on that, or if we cannot, then we will know better as to what we are going to do through the actual verbiage in the report. I think that is important, but if we can find we have common ground somewhere and it is on observations and conclusions and we can debate that, discuss it and reach it if we are going to—if we are not, then that is fine too—and then go back and try to redefine what the report says.

**Mr Christopherson:** The only problem with that is, first of all, this is really meant to be the basis from which the committee observations and conclusions are drawn, basically. Still, this has been done by a neutral party, the legislative staff; not by our staff, not by your staff. I think maybe it is important that we at least substantiate and finalize what that is going to look like.

Second, if we jump to the observations and conclusions and agree on that without having done this, it may lead us back again to finding we do not agree with the observations and conclusions, because they have to be consistent. I just disagree in terms of what is the easiest process, Chris, not with any kind of one-upmanship in mind.

**Mr Stockwell:** Fine. I just thought the committee would agree, but if it does not, I understand.

**The Chair:** Can we proceed then?

**Mr Christopherson:** I have a proposal in front of the committee and I am in your hands as to how you want to handle it, whether you want it just as a suggestion for now to see if it will fly and then a motion, or do you want me to just move quickly to motions and the other parties will do the same?

**The Chair:** Let's throw it out and see if it flies and we can do it by consensus. If not, then we can have it in the form of a motion.

**Mr Christopherson:** Okay, then I will repeat: to strike the words "as thorough" and put "conclusive."

**Mr Stockwell:** We do not care.

**Mr Elston:** Does it not say they did not do a whole economic modelling, as compared to what other people did? It just says it was not as in depth. I think if that is what the reports and the deliveries to the committee showed, you should say it. I am not going to spend a lot of time over it, but if they did not come forward and say, "This is the modelling we have done, and this the analysis that follows through," and somebody else was able to show a much deeper analysis—I am sure the banks did more economic discoveries with statistical material than others—then what is the damage in just leaving it as it is?

**Mr Christopherson:** It just seems a little negative, regardless of whom it is referring to, to say that they did not do thorough work. There is an implied description of the quality of the work and that is why we felt the word "conclusive" was more acceptable.

**Mr Sterling:** In the first paragraph, can I just make one comment in terms of the content. It gives, in my view, a false impression of what I read from most economic groups and it has no political bearing on us one way or the other. It says, and I agree, that most forecasters agree that we are going to come out of the recession in the second half of 1991, but I got the impression that most of them said, including the Treasurer actually—that gives the impression that 1992 is going to be a real blip up and I got the impression that it was going to be a slow climb out.

Now, I do not know whether that is worth while putting another way or not. When I read that, I thought, "Gee, you know, if I was picking that up, I would think that we are going to be on the way to boom times in 1992." I do not know; I throw it out.

**Mr Elston:** You might too throw it out.

**Mr Sterling:** I just think it would be more accurate to say that we expect to come back—you know, to start out in 1991—but that the recovery will be slow, or the recovery will be gradual.

**The Chair:** How about if that was changed, that there will be slow but some growth?

Interjection.

**The Chair:** Well, "slow," "some," "steady."

**Mr Sterling:** Why do we not leave it with the drafters and see if they can come up with something?

**The Chair:** How is that?

**Mr Elston:** We can attack them later.

**Mr Stockwell:** Slow and thorough growth.

**Mr Christopherson:** It is too bad Hansard is on.

Interjection: It is on.

**Mr Christopherson:** That is what I said, it is too bad it is on.

**The Chair:** I think we have discussed those two. We can look for those changes in the next draft. Shall we

continue on? This is a rather lengthy document. At the we are going we will be here until next Sunday.

**Mr Christopherson:** A simple one, the sentence in the same paragraph: "It should be stressed that the 'has been' no shortage of oil," as opposed to "is," just reflect the fact that we do not know where it is going to and just to keep it timely. Again, at the end of that sentence, "has not been affected by the war 'to date.'" It be implied in the date of the report, but we would like make it very clear that this is to the best of our knowledge right now. That is us for the first page.

**Mr Phillips:** A bit nitpicky, but in the second paragraph, "Unlike Canada, the American industry went through a considerable rationalization process in the early 1980s." I am not sure I have really seen the evidence that and the implication of that comment is that therefore the Canadian industry is going to go through a big rationalization process in the early 1990s that they went through in the 1980s. I do not remember the present actually making that point.

**The Chair:** Am I allowed to interject?

**Mr B. Ward:** As Chair, you can do what you want.

**The Chair:** I think one of the steel presentations indicated that there was some rationalization that took place in the American steel industry that had now put them in a better competitive position.

**Mr Phillips:** That was one example. It is quite a broad statement that I have personal difficulty in attaching support to without more information. I just throw that out to the committee.

**Mr B. Ward:** If I may, the impression I got was not much rationalization but a restructuring of the economy and perhaps that would be more acceptable to Mr Phillips instead of the word "rationalization," "restructuring," because that was the impression I got over and over again that the United States economy went through a restructuring period during the last recession, primarily in its manufacturing base, and the message, that I got anyway, from the major groups in forecasting the Ontario economy was that our economy was going through a restructuring similar to what went on in the United States in the last recession.

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**The Chair:** What would you like there?

**Mr Phillips:** I would take this sentence out because we do not have the proof, but I do not feel that strongly about it. I like to support things that I saw the evidence of, but it is not a big point. If nobody else feels it, leave it in.

On the bottom one, "The current recession is characterized"—

**The Chair:** I had better just ask the question, is there any objection to removing that sentence?

**Mr Phillips:** I do not feel one way or the other.

**The Chair:** "Unlike Canada, the American industry went through a considerable rationalization process in the early 1980s."



**Ms M. Ward:** We have to retrieve the following sentence that carries that further. You will have to take that out.

**Mr Elston:** You see, it is also not quite true. I take a look at some of the little plants that I remember, and I was there in 1981, 1982 and 1983, when we were discussing a whole series of issues around the recession and the high costs that were placed on Canadian businesses. I remember the number of foundries that closed down in Canada in answer to the restructuring in the auto industry. I remember the people who were laid off in Windsor permanently. It does not quite ring true from my own personal information. I know, for instance, that a couple of businesses in that used to be my home town underwent a whole series of changes, modernizing their equipment, they laid off people, they hired more people back, they recapitalized. So maybe somebody's observation was not particularly apt. Maybe it should not have been repeated because I know there are a bunch of people who never have been hired back from the jobs they lost in 1981.

Take a look at Brantford and a whole series of other places that have gone through, in this last decade, one of the most horrendous sorts of readjustments anywhere. You take out White, you take out Massey-Ferguson. Good lord, if that is not restructuring and reshaping, I do not know what it is, for Canadian industry.

**Mr Christopherson:** I understand there was a suggestion of the word "restructuring." I do not know if that gives it. It was pretty clear. When we had our caucus discussions on that clause, we heard that message very clearly from a number of sources.

Interjection.

**Mr Christopherson:** No, but in this fashion. What we have been hearing from many people is that this is not like the early 1980s; the Americans did go through that restructuring, that rationalization, but we did not. I am sure you point to communities like Brantford, but on the whole, it did not go through that at the macro level in the same sense that the Americans did in the early 1980s. I am not saying whether it did or did not happen; I am saying that the consistent point I think we heard.

**The Chair:** Could I offer a suggestion here, then? Perhaps we could take that phrase out and say that the Canadian economy is in the midst of a restructuring process. We can use either the word "again" or "now." I do not want to pass any premature judgements, but I think the point to be remembered here is that if we put it in here, this might tend to become seen as a word of truth. If we say it, it becomes a word of truth.

**Mr Elston:** This is our committee's report. I am not going to be prepared to stand up and say that, unlike Canada, the Americans went through restructuring, because I remember sitting here and listening to people and that is what I remember it being, the way it was.

**Mr Sutherland:** I think it is the degree. Several other members said that the amount of permanent job loss this time was far more substantial than last time.

**Mr Elston:** Say that, but do not say that Canada was not restructuring like the United States did, because we lost a pile of people in 1981 to 1983.

**Mr Sutherland:** No one is denying that. I think we are all aware of that. I think this statement is coming out of the fact that several went out of their way to highlight that fact, that there is far more permanent job loss this time than last time.

**Mr Elston:** Fine, let us just say that.

**Mr Sterling:** Where is the evidence?

**Mr Sutherland:** Murray, I do not think you were here at the time, but there was evidence supporting what you are saying and that in coming out of this recession they did not think it would be as deep because the rationalization had already taken place in the early 1980s. Companies were leaner and meaner coming out of the early 1980s and therefore they were better able to cope in this recession. So I do not disagree with what you are saying. I found this whole thrust a bit queer myself, but I do not know how important it is.

**Ms Anderson:** It is not clear whether you want those sentences in or not.

**The Chair:** I think what I am hearing is that what should go in there is something like, "We are undergoing a restructuring at this time, and it is resulting in a greater degree of permanent job loss than occurred in the earlier recession."

**Mr Phillips:** "The current recession is characterized by historically high real interest rates." That is a fact, is it? I cannot remember whether they proved—there were lots of times when the interest rates were substantially higher than they have been, but it is the real interest rates that are at a historic high.

**The Chair:** My understanding is that it is the spread between inflation and what the interest rate is. Does anybody have any problems with page 1 now? Page 2?

**Mr Christopherson:** I will just list the concerns we have about that first paragraph and then leave it for consideration. We are not comfortable with the first sentence and we would like to see it struck. We would change the second sentence so that it reads, as you head into the third line, "substantially as a result of reduced transfer payments, rising social welfare costs and reduced revenue."

The next sentence would start where the words "transfer payments" are in the seventh line. The next sentence then, after "reduced revenue," would be "transfer payments." It would start there.

Then the last sentence of that paragraph, just to finish our thoughts on this paragraph, is "At the same time, any windfall from the GST," as opposed to "an unexpected." "An unexpected" would be withdrawn and replaced with "any."

**Mrs Sullivan:** Could you read the paragraph—

**Mr Christopherson:** What the paragraph would look like? From the top, then:

"In Ontario, the deficit now stands at \$2.5 billion and it is possible that it might increase substantially as a result of reduced transfer payments, rising social welfare costs and



reduced revenue. Transfer payments to the provinces have been declining, and provincial governments have had to find ways of meeting the shortfall through the introduction of innovative policies or by reducing their own expenditure. At the same time, any windfall from the GST might assist the federal government in its attempt to bring its deficit under control."

**Mrs Sullivan:** I would suggest that the second sentence read, "In Ontario the deficit now stands at \$2.5 billion and it is possible that it might increase substantially as a result of reduced transfer payments, rising social welfare costs, reduced revenue plus expenditure decisions."

**Mr Sterling:** Evidence was presented to the contrary. The Treasurer came in and said he got an \$800-million windfall from the transfer payments. That is why his deficit is not \$3.5 billion.

**The Chair:** Just a minute. I want to deal with this first one, "plus expenditures." What was the phrase?

**Mrs Sullivan:** "Plus expenditure decisions."

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**The Chair:** "Plus expenditure decisions." Are we living with this or are we going to die on this one?

**Mr Christopherson:** We are listening.

**The Chair:** "Plus expenditure decisions"?

**Mr Christopherson:** I did not say we agreed. I said we are listening.

**The Chair:** I am listening, too, and I am trying to get a sense of—

**Mr B. Ward:** Could we have Barbara's rationale?

**Mrs Sullivan:** Given some of the announcements that have been made since the change in government relating to capital works, relating to elimination of the retail sales tax on the GST, social assistance rate changes, child care announcements, housing starts and so on, clearly, one of the contributing factors in relationship to the deficit—the other two major factors, of course, relate to announcements very early on in this government's administration relating to SkyDome and relating to UTDC. As a consequence, those are very much factors in the current-year deficit and will continue to be a factor in the 1991 deficit.

**Mr Phillips:** I am not sure what this means. I thought we were talking about this year's deficit. Are we forecasting next year's deficit here? What is the intent of this paragraph? If that is the case, for me at least, we are only eight weeks away from year-end. The Treasurer was just in here. He was saying he feels fairly good that this \$2.5 billion is what we are going to have. So I do not think it is realistic to say it might increase substantially.

Personally, I think we have the \$2.5 billion pretty much in sight. Therefore, I would be more inclined to say it now stands at \$2.5 billion and it looks like that will be the case for this year, this deficit, relative to the expectation of surplus, as a result of somewhat lower revenues, about 1% lower revenues; and then, it seemed to me, there was \$600 million for welfare payments, \$400 million for UTDC and \$400 million mainly for SkyDome. I think we must determine what we are trying to talk about here with the deficit.

I would be very surprised if the deficit is going to be higher than \$2.5 billion.

The other one—and this gets a little political, but remember transfer payments are about 10% of the revenue. It is nice to blame the feds, but 90% of the revenue comes in from other sources, so there is a limit to how much we are going to be able to lay on the feds, although I would like to blame the feds for everything.

So my question is just that if the intent is to talk about this year's deficit, I cannot imagine that it is going to come much off the \$2.5 billion, and it is fairly clear where the deficit comes from.

**The Chair:** I think that is a good question. What is the intent here? What do we want to say in that paragraph?

**Mr Phillips:** Because later on we get into forecasts, I think it is just a matter of what we are talking about here and I think we are talking about the current deficit.

**Mrs Sullivan:** The Treasurer says it will not increase.

**Mr Christopherson:** So what is the current proposal then?

**Mr Phillips:** If in fact we are trying to say, "In Ontario the deficit now stands at \$2.5 billion," I do not think it is true that, "it is possible it might increase substantially as a result of"—

**Mr Christopherson:** I hear where you are going. We would have to ask the authors. I think we took it to mean next year's fiscal budget, or were you referring to the \$2.5 billion? Anne or David? In that sentence, as the authors were you referring to fiscal 1990-91 or 1991-92?

**Mr Rampersad:** I got the impression that we were saying that during the course of the year we might have an increase.

**Mr Christopherson:** Which year, though?

**Mr Rampersad:** In 1991-92.

**Mr Christopherson:** So this is for next year?

**Mr Phillips:** Mr Chairman, if we are going to talk about next year, then we get into a whole set of things, which seems to me, about other expenditures.

**The Chair:** Maybe we should get something clear, that is, what the purpose of the preamble to the recommendations is. Are we doing the state of affairs now or are we doing a projection? If we are doing the state of affairs now, then perhaps we would want to look at that in light of—

**Mr B. Ward:** The heading of the section is "Current State of Affairs," so in fact it does refer to this year's potential deficit of \$2.5 billion. I think it is simply rewording this paragraph to reflect that it is anticipated, based on input given to this committee, that the \$2.5 billion will be maintained as far as the deficit for this year is concerned, because it is the current state of affairs. That is what you were trying to get at, was it not, Gerry?

**Mr Phillips:** Yes. Later on I think we get into forecasts and that is when we—

**Mr B. Ward:** Perhaps we can just have staff reword that whole paragraph, to reflect, for the Treasurer and everybody else, that the deficit should be \$2.5 billion.



**Mrs Sullivan:** We might even specify it more by putting that fiscal year end of 1990-91.

**Mr Sterling:** I think it is important that you have the information in the report as to what in fact the deficit is. I would really like to see the deficits of the province and of the federal government. I would like to see the per capita debt of both, and the cumulative deficits as well, because in my view those things are to be considered in whether or not you spend money to get out of a recession.

It would be interesting for me as well to know what the per capita debt is in the American jurisdictions around us, because we continue to talk about the competitive situation. That is why I am interested in knowing that information: What do I recommend to the Treasurer to do in terms of his budget? You recommend on the basis of: Does he have any room to spend money? Should he drive the deficit higher by trying to spend his way out? Or should he be more concerned about holding the line? That is, I think, the political decision you make after the evidence is produced.

So what I would really like to see is an appendix to the report saying that the deficits are—I do not think anybody said the deficit was not substantial. I think there were several groups that said it was substantial, both here and at the federal level, but I would really like to know what the facts are, and per capita debt is an important number for people to relate to.

**Mr Sutherland:** To alleviate the wording problem, if you delete "billion" you deleted "and it is possible it might increase substantially," the sentence would seem to flow well and indicate that it was referring to this year.

**Mr Christopherson:** So it would read, "In Ontario, the deficit now stands at \$2.5 billion as a result of reduced transfer payments, rising social welfare costs and reduced revenue."

**Mrs Sullivan:** I would still like the words "plus expenditure decisions" included there as well.

**The Chair:** Does anybody have any problems with that?

**Mr Sutherland:** Maybe we should just leave that one alone now and come back to that issue.

**Mr Stockwell:** You cannot say you have a \$2.5-billion deficit and then, in the same sentence, blame it everywhere except on the guy who is spending the money. For goodness' sake, let's be reasonable. If you have a \$2.5-billion deficit, yes, some comes from social welfare costs, some comes from reduced revenue, I agree, some comes from transfer payments. But yes, some comes from spending money.

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**Mr Sutherland:** If you want to put it from policy expenditures, that is fine, but we could get into quite a debate about SkyDome and UTDC. Whether you want to say policy expenditures by this government or by the past government, for that matter, we could debate that for hours.

**Mr Stockwell:** How about policy expenditures by previous governments?

**The Chair:** Just to interject, I think the phrase was "policy expenditures." Policy expenditures are expenditures. It is pretty open. It does not blame anybody.

**Mrs Sullivan:** "Expenditure decisions."

**The Chair:** It does not really blame anybody, does it? I mean, who is footing the bill?

**Mr Christopherson:** "Plus expenditure decisions." Let us get back to you.

**Mr Phillips:** What about "expenditure and revenue decisions"? That would reflect that the revenue is down by \$70 million, too, because of the decision.

**Mr Christopherson:** We will have to set that aside for now and we will get back to you on that.

**The Chair:** Is that paragraph substantially okay?

Interjections.

**Mr Stockwell:** Let's move on and see what else we are not going to agree on.

**Ms Anderson:** Can I suggest this? We just take that first sentence, really, and then we will add some things about the current state of the per capita debt and move the rest of it later.

**Mr Phillips:** Transfer payments to the province have not been declining.

**Mrs Sullivan:** The rate of increase has been declining.

**The Chair:** Are we happy there?

**Mr Christopherson:** I am just a little unsure about exactly what is going to happen. I could not hear the researcher.

**The Chair:** This is the way it is going to stay unless we get directions to do something more specific with it, the changes we have heard: "In Ontario, the deficit now stands at \$2.5 billion as a result of reduced transfer payments, rising social welfare costs.... Such deficits have prevented governments from adopting"—

**Mr Christopherson:** No, no, no.

**The Chair:** That is out?

**Mr Christopherson:** Hold it, Mr Chairman, please. Slow down. We proposed what we would like to see in this paragraph and then we left it there to sit. The only thing I heard come back was from Mrs Sullivan, who asked that the words "plus expenditure decisions"—and then Mr Phillips suggested perhaps "expenditure and revenue decisions"—be tacked on after the words "welfare costs." Mr Sterling asked that there be an appendix regarding certain information. Those are the only three things I heard come out.

Our response was that we wanted just a chance to caucus later on and get back to this group on the request for "expenditure and revenue." Our concern is how the UTDC thing is going to play into it, and the SkyDome, and that is what we want to talk about. But I can appreciate the arguments made by Mrs Sullivan and Mr Stockwell. As to the rest of it, unless we hear something contrary, I am assuming it is out.

**Mr Phillips:** The rest of that paragraph?

**Mr Christopherson:** As the last time I read it, at Mrs Sullivan's request.

**The Chair:** Read it again, please, the way you envisioned it, whatever changes you want to make.

**Mr Christopherson:** "In Ontario, the deficit now stands at \$2.5 billion as a result of reduced transfer payments, rising social welfare costs and"—and the rest of it is still to be finalized. Then it picks up with, the next sentence is, "Transfer payments to the provinces have been declining and provincial governments have had to find ways of meeting the shortfall through the introduction of innovative policies or by reducing their own expenditure. At the same time, any windfall from the GST might assist the federal government in its attempt to bring its deficit under control."

**The Chair:** Are we happy with that?

**Mrs Sullivan:** I do not know who said it. It is not transfer payments that are declining; it is the rate of increase in transfer payments.

**Ms M. Ward:** Having taken that first line out, the last sentence really has nothing to hang on. The paragraph does not have a good structure in terms of sense.

**The Chair:** It lacks unity, emphasis and coherence.

**Ms M. Ward:** That last sentence is like a thought thrown in that has nothing preceding it in the paragraph.

**The Chair:** Should the last sentence be deleted?

**Mr Christopherson:** I think the earlier reference to "federal" has been removed.

**The Chair:** So that should go?

**Mr Christopherson:** Yes.

**Mr B. Ward:** I do not know what details we have to get in here, but I would like to add the word "approximate" before "\$2.5 billion," because we are not really sure it is exactly \$2.5 billion. It is approximately \$2.5 billion.

**The Chair:** Okay. Next paragraph. Is anybody not okay? The third paragraph?

**Mr Christopherson:** One small change at the end, the last sentence. "It"—meaning Ontario—"retains a good industrial structure and it 'remains' the most attractive destination for immigrants."

**The Chair:** Any problems with page 2? Page 3? I wish some of my students were here to see how we are going through this word by word. A good lesson in writing.

**Mr Phillips:** It is like eating in a fine restaurant. You never want to go in and see how the stuff is made.

This is a detail, but, "However, the current recession is a natural reaction to a long period...." I have trouble accepting that.

**Mr Christopherson:** So do we. The fact is, we want it struck.

**Mr Phillips:** I think you accept that you never have a—okay, good.

**The Chair:** That "however" sentence is out? Where are we?

**Mr Phillips:** I am only one member of the committee.

**Mr Christopherson:** We were going to propose that.

**Mr Phillips:** At the bottom, Mr Chairman, "The Canadian economy operates in a barrier-free North American market." I am not sure it is barrier-free as yet, and what the definition of "North America"?

**Mr Elston:** It used to include Mexico.

**Interjection:** I think it should include Mexico.

**Mr Elston:** Mexico City, North America.

**Mr Phillips:** I just do not think it is an essentially barrier-free North America. It is an essentially barrier-free US-Canadian trade market.

**The Chair:** Almost. Is that "an almost barrier-free"?

**Mr Phillips:** Well, "almost barrier-free" or "essentially" or whatever is a better word. "US-Canadian market" as opposed to "North American."

**Mr Elston:** I would have even gone further with the contrary view to that being the case. In fact it is not barrier-free. There are more impediments, in my view, under the free trade organization's dispute resolution mechanisms and the problems that are inherent in state legislation than I think a lot of the federal authorities want us to believe. I think it certainly is not true as it pertains to trade between Ontario and Quebec or Ontario and Manitoba or Saskatchewan. I just think that is much too lenient a description of our trade deal of the moment.

Interjections.

**Mr Elston:** The fact of the matter is that this is incorrect, the way that we define the North American economic union about to be, if that is what it is going to become, because it just is not barrier-free.

**Mr Christopherson:** What would you suggest?

**The Chair:** I think the point here is to talk about what we have and the concern about where we might be going. We see the free trade agreement extended to Mexico and how that impacts on us. I think that is what that is meant to do.

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**Mr Elston:** I just object to the "barrier-free" because we know that it is not.

**The Chair:** The suggestion is to take "barrier-free" out. "It is important to remember that the Canadian economy operates in a North American market."

**Mr Christopherson:** Actually, we have got a problem with the whole paragraph, to tell you the truth.

**Mr Stockwell:** What is your problem with that? Is your problem that you do not think it is going to happen or is your problem that you do not want to see it happen?

**The Chair:** My reading of what has been said is that it is not a real reflection of what is actually taking place.

**Mr Stockwell:** I understand what Mr Elston has said. It is talking, as I see it, in present terms and in future terms. We are talking about a market that is beyond our own. I suppose it is going to happen or it looks like it is going to happen. Now, we do not really have a lot of control over that. Are we simply ignoring the obvious?



cause we do not like it? I guess that is what I am trying point out. I am not saying we have to like it or dislike it.

**Mr Jamison:** It is not really barrier-free. Even the bilateral deal is not barrier-free, if you look at it. The Americans at this point, quite frankly, have the ability to out-301 us or countervail us or whatever.

**Mr Stockwell:** I do not want to get into a whole free trade debate. We are not going to agree on that. I guess that I would like to know is—

**Mr Elston:** You said, "What is your problem?" What is your problem?

**Mr Stockwell:** I think this is going to happen. It is going to happen because the federal government looks like it is committed to making it happen and I do not want to simply omit it because we do not happen to agree with the federal government. It is a fact of life, and shutting your eyes and hoping the lion does not see you is not the way of doing it.

**The Chair:** Mr Stockwell, with all due respect, I think that the debate here is whether or not it is barrier-free. Your part of the argument, from the way I understand you—and correct me if I am wrong—is that you are saying that it is barrier-free and that is the way we are moving. The argument that I hear from Mr Elston is that in fact there are lots of impediments. They are municipal, they are city-wide, they are state-wide and there is still the free trade deal itself.

**Mr Stockwell:** You have misunderstood my argument. My argument is that we are moving more towards a barrier-free—

**Mr Sutherland:** Why do you not say "tariff-free"? That is really what the free trade agreement was, to make it tariff-free not barrier-free.

**Mrs Sullivan:** I think we should just leave those words out.

**Interjection:** The whole paragraph?

**Mrs Sullivan:** No, just "barrier-free."

**Mr Elston:** All you need the paragraph for is to set the context for the operation of the economy, right? The pressures that are generated by increasingly hemispheric trade initiatives—maybe we should put "are going to cause a considerable period of rationalization" or "go hand in hand with the past three years," something like that. You are to set the context. That is what this thing is supposed to do for us, to forecast for the people reading this report that there are troubles ahead unless the government responds in a particular way, I presume. Since this is advice from the Treasurer, we are presumably alerting him and his colleagues in cabinet of the fact that he has got to do something.

**The Chair:** It is also a document, as you pointed out earlier and I think is worth repeating, that a lot of people are going to read and use as the gospel according to this committee. I will just leave it there.

**Ms M. Ward:** Given that a lot of people have called it a made-in-Canada recession, including people appearing here and what you read in the newspapers, can we

really agree with the first sentence that, "It is impossible to point to...causes of the recession"?

**Mr Stockwell:** Oh, come on, name one person who says it is a made-in-Canada recession.

**Ms M. Ward:** I can find it in some of these briefs.

**Mr Jamison:** We had about three presenters who said that.

**The Chair:** The Royal Bank.

**Ms M. Ward:** I think the Conference Board of Canada did also.

**The Chair:** The Conference Board, the Automotive Parts Manufacturers' Association, the—

**Mr B. Ward:** Blame that on the federal government.

**The Chair:** It is a good job you were not here, boy, your ears would have been burning.

**Mr Stockwell:** If it is a made-in-Canada recession, we certainly have far-reaching powers because we now reach Europe and the United States and we are a major leader in world affairs.

**Mr Jamison:** Mr Stockwell, we led the way into the recession. We were there ahead of other countries.

**Mr Stockwell:** No, no, you said—we did not say we led the way into the recession. You said it is a made-in-Canada recession, meaning very clearly that no one else is in a recession and it is only through our ineptness that we are in a recession. Totally unbelievable, it is absurd.

**Mr Christopherson:** We would feel most comfortable just removing that first sentence.

The second thing we would change is that in the next sentence, the last sentence of page 3, the word "opportunities" be removed and replaced with the word "pressures." Actually, it would be "opportunities provided" replaced with "pressures." It would then read "partly in response to the pressures under the FTA."

**Mr Elston:** "Pressures generated by"?

**Mr Christopherson:** "Generated by the FTA."

**Mrs Sullivan:** I think it is important to leave the first sentence in. Indeed, it shapes what is a factor that is clearly on the table at the federal level. It will have a major impact on Ontario over the longer term, and the federal government is at the table on that issue. Whether the current administration in one of the provinces concurs or does not concur, the thing is that it can very likely happen, which is all that says. I think it should be there. It is a reality.

**Mr Elston:** Why do we not say that "the Canadian economy operates in a North American market that is quickly moving towards a hemispheric"—

**Ms M. Ward:** I thought we were talking about the first paragraph.

**Mr Elston:** Oh, I am sorry. I am bouncing around. We were talking about the last sentence in the last paragraph on page 3, and I thought we were at the first of that. I am sorry.

**Mrs Sullivan:** First paragraph on the page and the last—

**The Chair:** Can we deal with this paragraph and then glue it together? Could you read your suggestion again, Mrs Sullivan, about how you would like to see that last paragraph worded?

**Mr Elston:** Okay, that is where I thought we were.

**Mrs Sullivan:** Yes, that is where I thought we were too. I am getting all confused. I would simply leave the first sentence in but for the words "barrier-free." Unlike the NDP representative who recommended that be taken out, I feel it is important for it to remain in because it is a reality that is going to have to be faced and "might even" is enough of a hedge that it describes the next phase of development, presumably, in an expanding market.

Whether the second sentence is changed to replace "opportunities" with "pressures," indeed there have been some opportunities for rationalization and increased productivity within Ontario under the FTA, and some of the pressures have lead to closed jobs. So, one or the other. Clearly, there has been a rationalization, not only due to the FTA but partly in response. Why do we not just say "partly in response to the FTA"?

**Mr Christopherson:** I am a little unclear. We are certainly open on this. We are not hard and fast on the position.

**The Chair:** Could you read your whole paragraph as you see it?

**Mr Christopherson:** Yes, but I am a little confused.

**Ms M. Ward:** Maybe I misunderstood, Dave, because I brought up the point about the first sentence on the page and I thought that was the sentence that you were referring to. It is not?

**The Chair:** No. We are dealing with the last paragraph. We will get back to your first paragraph. Could you read your last paragraph again?

**Mrs Sullivan:** "It is important to remember that the Canadian economy operates in a North American market that is likely to be expanded in the near term and which might even become a hemispheric market in the medium to long term. The Canadian and Ontario business sector has undergone a period of considerable rationalization during the past three years, partly in response to the FTA."

**Mr B. Ward:** Could we add one word? "It is important to remember that the Canadian economy primarily operates" because we do have trade with Europe—

**The Chair:** "Primarily."

**Mr B. Ward:** "Primarily operates" recognizes that most of our trade is with the United States.

**Mr Stockwell:** Fine.

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**Mr B. Ward:** However, the reality is that we do have some trade.

**Mr Christopherson:** Somebody had already jumped to the last paragraph before we had a chance to do the second one. I did not want to throw us off, but—

**The Chair:** Let's do the first paragraph under "Causes of the Recession."

**Ms M. Ward:** I just brought that point up. I was making a recommendation. I do not agree with that statement that, "It is impossible to point to" maybe no specific cause" but "the causes of the recession." The interest rate was what concerned me. I do not think there is much emphasis on it through here.

**Mr Elston:** So you just take out the first sentence start off, "Numerous factors have converged...." It does not make much difference.

**The Chair:** Strike that first sentence: "It is impossible to point to a specific cause or causes of the recession."

**Mr B. Ward:** David probably worked for hours on that sentence. We are taking it out, Mr Chair?

**The Chair:** I am at the will of the committee.

**Mr Stockwell:** Fine, take it out.

**The Chair:** Paragraph 2?

**Mr Christopherson:** I just want to mention early on we have changes but some of the chapters, if I can call them that, did a very good job, as we saw it, of attributing statements to the groups that came in. They were very clear that this group said this, a number of either labour groups or business groups or economic forecasters. There were some chapters or sections that did not. This was one of them where we thought there should be more attributing of some of these statements, as opposed to just naming them straight up. For the note of the researchers, we saw pages 1 and 8 as good examples of doing that a lot more thoroughly.

The third paragraph, middle of the paragraph, "The high exchange rate of the Canadian dollar is caused by a number of factors, none of which can be considered in isolation." We have a bit of a problem with that to the extent that, although this may be a philosophical departure point, the whole concept of the made-in-Canada recession and why the Canadian dollar is where it is we see clearly a decision of the Bank of Canada at the behest of the support of the federal government. To just say it is caused by a number of factors and not point more specifically gives us a real problem.

**The Chair:** Could I have a line or something from you that you can live with there?

**Mr Christopherson:** Yes. Let me throw this out for discussion: "Is caused primarily by the Bank of Canada"

**Mr Stockwell:** We need a reference point.

**Mr Christopherson:** We did throw in "primarily" Chris.

**Mr Stockwell:** No, we did not.

**Mr Christopherson:** I thought so.

**Mr Stockwell:** The trouble is in the second paragraph "The onset of the American recession." I guess you would have to include, "led by Canadian policymaking," if it is the made-in-Canada recession. I forgot that.

**Mr Elston:** No, it says, "had a major effect on helping to deepen the recession."

**Mr Stockwell:** But I am saying you will have to include the only reason they are in a recession is because of the led the way.



**Mr Christopherson:** No.

**Mr Stockwell:** No?

**Mr Christopherson:** A made-in-Canada recession does not mean—

**Mr Stockwell:** We pulled them in with us.

**Mr Christopherson:** No.

**Mr Stockwell:** Okay.

**Mr B. Ward:** They have their own problems.

**Mr Stockwell:** I see. So we have a made-in-Canada recession, a made-in-the-United-States recession, a made-in-England recession. It is kind of weird how we all go in the same time.

**Mr Christopherson:** That sentence is very carefully constructed and as far as we are concerned it is very accurate.

**The Chair:** Could I have again, for the sake of the searchers, the change that you are proposing for that paragraph, then, Mr Christopherson?

**Mr Christopherson:** At this point it is, "The high exchange rate of the Canadian dollar is caused primarily by the Bank of Canada" period, striking "by a number of factors, none of which can be considered in isolation." That part is struck in our proposal.

**Mr Phillips:** I know it is a lot of fun to blame this on row, but I thought the credit people had a reasonably good observation in their notes on the economy they gave to the federal government. As I say, it is fun to blame it on row totally, but one of the reasons he had to keep it high we can only get money to service our debt nationally offshore. You can only attract it by the interest rates. It is not as simple as we would like.

I think we all think, "Reduce interest rates, the Canadian dollar drops to 80 cents, we are all out of the woods," whatever. But as he says here, or as the credit union people say, for example, "Overseas investors have significant investments in the short-term instruments. This money could leave the country quickly, producing a sharp drop in the Canadian dollar," which we all might like, but as I say, I think we have to be a little bit careful of being overly simplistic, and that is why maybe the writers put that in. I do not want to minimize the fact that it is not going to be simple to reduce.

**Mr Jamison:** I think that what we are trying to say, and say clearly, is that there is an extremism on the part of the position of the dollar at this time.

**The Chair:** If I could interject here, rationalization for the high Canadian dollar is not what you said. The constant reminder of the Bank of Canada is that the dollar is high because of inflation. That is the reason it is high, to curb inflation. That is the primary reason, as I understand it and not that one of the presenters indicated that the dollar would not fall, that interest rates would not fall.

**Mr Phillips:** I think all the banks said, "Listen, we do have a substantial part of our debt that is offshore and one of the challenges in taking the dollar down, taking interest rates down is whether we will be able to service our national debt or not."

**The Chair:** In response to a question that I put to one of the bank associations about that—I asked to what extent our debt was offshore and to what extent the federal deficit was being financed offshore instead of just buying it within. The response that came back was that most of the federal deficit is financed here and the problem lies with the industrial sector that had borrowed its money offshore in response to the shortage of money here because the federal government was taking it up, and our interest rates were held high in order to curb inflation.

**Mr Phillips:** I would have to reread Hansard. I have just a different recollection.

**Mr Stockwell:** The Canadian Bankers' Association said exactly what Mr Phillips just said, word for word. Exactly that. I think it is unfair, and again, you can play games and put it all on one person, but the last deputation made that exact point.

**The Chair:** We have heard many others.

**Mr Stockwell:** Okay, but there are always conflicting views, and to simply say that is the primary reason is unfair.

**Mr Christopherson:** Mr Chairman, in recognition of the comments made—and we are an easy-going bunch, as you will find—to include "primarily caused by the Bank of Canada and federal government deficit," we can live with that.

**Mr Elston:** I may be out of turn, but do we have to pinpoint all the reasons behind each of these problems? Are we not asking in this paragraph to identify the reasons why we find ourselves in a recession? Yes, we find ourselves in a recession because of some global problems; yes, the tight monetary policy contributes to the recession that hit us; yes, there is a problem with the value of the high exchange rate of the Canadian dollar. Are we charged with trying to determine exactly why everything has happened that way? Are we not just enumerating those as causes of our recession? So why are we worried about whether or not it is attributable to X, Y or Z? Let's just identify those as problems with which we have to wrestle. I mean, we are not here to solve the world's problems.

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**Ms M. Ward:** I think we have two different things here that we are arguing about. Mr Phillips is objecting to our blaming it on the Bank of Canada, saying that the Bank of Canada may have some valid reasons for its actions. But I do not think that stops us from identifying it, that the high Canadian dollar is caused by interest rates. That there might be an argument that those are justified is a separate thing.

**Mr Elston:** I just say to identify that high interest rates cause problems, high exchange rates in the Canadian dollar cause problems and let's let the Treasury people figure out what the problems are.

**The Chair:** Can we live with that?

**Mr Christopherson:** I understand what Mr Elston is saying, but what is his proposal vis-à-vis what is in front of us?

**Mr Elston:** I just basically said let's not try to attribute the blame. All we have to do is identify.

Interjection.

**Mr Elston:** Well, you can just identify it and say tight monetary policies or global problems, whatever. What does it say? "Circumstances peculiar to Canada and Ontario are also responsible for the local recession. In part, they are part of the response to the global changes described above. The tight monetary policy of the Bank of Canada...the high exchange rate of the Canadian dollar." Just list them.

**Mr B. Ward:** So you are saying "these circumstances include."

**Mr Elston:** Yes. If you start saying it "is caused by" then perhaps that is where we are going to have some problems with dissent and we may never get by this paragraph. But it is certainly clear, I think, and all of us can agree, high interest is a problem for us in Ontario; the exchange rate on the Canadian dollar is a problem for us here in Canada, and in Ontario in particular. The policies, from the Treasurer's point of view, are going to have to be developed to help minimize those influences on our economic condition. So let's let him figure that out.

**The Chair:** Can we live with that?

**Mr Elston:** Let's just list them.

**The Chair:** The first three sentences would sit as they are, and then you are suggesting "the high exchange rate of the Canadian dollar"—

**Mr Elston:** —"is also a contributing factor," if you want, and then you do not even have to say what it is caused by.

**The Chair:** I think he said the high interest rates, the high value of the Canadian dollar. Just list the factors and then get on with it.

**Mr Elston:** I may be missing something, but is that not maybe enough for it?

**Ms Anderson:** Yes.

**Mr Christopherson:** The only thing I would suggest, though, is that what we have heard from most of the people who came forward is that it was a two-punch. You have to tie the high exchange rate and the high interest rates hand in hand.

**Mr Elston:** They are listed there together.

**Mr Christopherson:** But I am saying they should really be in one sentence, in the same sentence so that they are given equal weight, that is all.

**Mr Elston:** I think of this report to be read by somebody who just got laid off and who would try to identify whether or not we were doing real work or whether we were being a little bit fictitious. Would they agree that they have been affected by, or the economy has been affected by, high interest rates, by the high value of the Canadian dollar internationally and by global changes? I think they would understand that and say, "Yes, that's probably pretty clear." Now, are they going to be as concerned about whom to attribute those problems to, consistent with their own problems? I think they are not as concerned about

that, but they want to know that this is a valuable piece of advice for the Treasurer, so that if we can identify problems, then the Treasurer can take steps to deal with those issues, if he can.

**Mr Christopherson:** I am sure they will want to know in 1992, but in terms of right now, your point is taken. I think as long as we took the tight monetary policy of the Bank of Canada in addition to the high exchange rate and tied a sentence in that way, if that is a fair compromise, that meets our needs and I think it might go a long way to meeting yours. I do not know about Mr Stockwell.

**Mr Stockwell:** Fine.

**The Chair:** We can write off page 3?

**Interjection:** Sounds like it.

**The Chair:** Page 4.

**Mr Phillips:** Can we be more specific on that, "in long term, political uncertainty in Canada, caused by NDP election"?

Interjections.

**Mr Phillips:** Okay, I am kidding.

**Mr Christopherson:** And I thought we were bending over backwards to be non-partisan here.

**Mr Phillips:** I assume that does refer to—

**Interjection:** The Constitution.

**Mr Phillips:** Yes.

**Interjection:** Maybe we should spell it out.

**Interjection:** Where is this?

**Mr Phillips:** Two lines, halfway down.

**Mr Christopherson:** Do you want to say "constitutional uncertainty in Canada"?

**Mr Phillips:** This will elicit, I am sure, some discussion, you know. I believe it. Specifically what it will be something the committee should discuss.

**Mr Christopherson:** I think that is a fair point. Whenever the Treasurer is having consultations with people, wherever possible he tries to ask them what their thoughts are on the constitutional question. I think that is recognition of the impact that whole matter is having on dollars and investments. That is why when you mention I think it is well worth making it very clear, when we say "political," we are talking about the constitutional uncertainty. I think it is a valid point.

**Ms M. Ward:** Is it possible, though, that the words "cannot fail" are a little too strong? Are we not saying it is a foregone conclusion that it is going to happen.

**Mr Stockwell:** Are you going to put those in?

**Ms M. Ward:** No, the words are there, "cannot fail."

**Interjection:** "May"?

**The Chair:** We could say, "Constitutional uncertainty in Canada could have an adverse effect on investment decisions."

**Mr Stockwell:** Do you really think that is watering it down? "Could have"? I mean, it is going to have.

**Mr Christopherson:** It is having. But to what degree? We are not measuring degrees here, but if anybody wants



make the statement that it is not having an impact out there, I would challenge it.

**Mr Stockwell:** I think pretending it could have—you are suggesting that it is not here.

**Ms M. Ward:** "Is expected to"?

**Mr Stockwell:** It is here. It is having its effect.

**The Chair:** Then you could say, "Constitutional uncertainty in Canada is having some adverse effect on investment decisions."

**Mr Elston:** If you wanted to hedge your bets a little, you could put in some escape words for the committee's benefit. If you cannot pinpoint a definite presenter, you could say, "It is the committee's feeling from the general sense of presentations given that the constitutional uncertainty surrounding Canada's future is having an adverse effect on...." If you want to escape being definitive, that is the way to do it. I think it is a general sense that I get from listening to members in turn, who have heard more of the presentations than I did, that you feel—

**Mr Stockwell:** It has been stated.

**Mr Elston:** Okay, then you should just go right ahead and say that.

**Mr Christopherson:** Unless others have a problem.

**Mr Elston:** How far do you want to go as a committee in underscoring that for the purposes of somebody who does political analysis of committee work in this Legislature, for the benefit of investors in New York or some other place, jurisdiction? They read this stuff. Particularly people in the state of New York, for instance, are looking at any advantage at all. If they can hold up a committee report that says our own committees are identifying now that the constitutional uncertainty is a reason why people are not investing in Ontario, you may find yourself commiserated just slightly by that as you try to go the rounds to say, "Don't set up your new business in Buffalo."

It is just something that you have to be aware of once you get into the position of writing these reports, because whether they are seen to be government-adopted reports or not, these are government workings in the province of Ontario, government in the small-g sense. So consider the wording from that point of view, I think.

**The Chair:** Since you put it that way, should we take that up?

**Mr Christopherson:** Let's come back to it. You raise a valid point and I think we would like to chew on it.

**The Chair:** Does anybody have any problems with that page?

**Mrs Sullivan:** I am looking at the very last sentence of the first paragraph, page 4. "At the same time, because companies that have been unable to compete successfully have failed, only the most efficient producers are likely to survive and be competitive in the post-recession period." I think what you are looking at here is a statement that really reflects the reality only—maybe not only, but specifically the manufacturing sector.

The discussion about productivity increases and competitive successes largely related to an increase that was

also occurring in additional value added in those sectors. Certainly in any recessionary period the tough fighters are the ones that stay in, but I think, by example, of the construction industry, where a lot of their failures are market-driven rather than productivity-driven. I think that is a little too all-encompassing.

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**The Chair:** How would you like to change that?

**Mrs Sullivan:** I am not sure. Maybe the writers can come up with something that would take into—

**The Chair:** Would you prefer something along the lines of, "In the manufacturing sector, some companies have been unable to compete successfully because they have not been efficient producers"—

**Mrs Sullivan:** No.

**The Chair:** I am just trying to be helpful here.

**Mrs Sullivan:** No. A lot of the companies in the manufacturing sector have all sorts of other issues affecting them. I just think there are other forces that have caused companies to fail and close down. The brush is just too broad there.

**Mr Elston:** I am also concerned, because this could suggest to people that the only reason companies are closing their doors here is because they are not competitive, while in fact the truth of the matter is that several have been purchased by foreign concerns and are now moved beyond our boundaries, particularly in the United States.

One of the first big issues that had to be dealt with by the new government was the issue of Consumers' Gas and who should buy or who should not. It does not mean, because these plants no longer operate in Ontario or in Canada, that they were not productive. Their loss is very hard felt here, but because they are so competitive, because they had good products, they now perhaps are manufacturing someplace else. I want to attribute some blame to the good product lines that are manufactured by some of these concerns that now are being made other places.

**The Chair:** How do we do that?

**Mr Elston:** I do not know. It just makes it more complex. I know the desire is always to try to go as quickly and as simply—

Interjection.

**The Chair:** Multinationals closing branch plants and moving them to the States.

**Mr Elston:** And taking product lines with them.

**Mr Jamison:** That is right. Restructuring once the buyout takes place. That is happening quite frequently.

**Mr Elston:** I do not want to make it look as though the Ontario marketplace is so highly uncompetitive and therefore we are all closing down. It is not the only story in town. That is all.

**Mr Hansen:** I would have to agree on your point, Mr Elston. We heard for a period of time that it was consolidation, that there were plants in the far south that had the capacity to run another shift. I think we would be letting the word out to other companies that want to locate here in Ontario that it is a scary place to come. I think you are

correct in that sense. It was multinational companies that were consolidating their product lines.

**The Chair:** We need to give some direction here about what we would like to do with this phrase. Should we just take it out?

**Mr Elston:** It is strange. It seems to be a given that only the most efficient producers are likely to survive. It is a just the problem that in Ontario's economy the most efficient producers also are being taken away. I just do not know how you wed the ideas in there.

**Mr Christopherson:** I think the points are well made. We are comfortable with the writers taking another run at it, bearing in mind some of the things that have been said here, and we will all take a fresh look at it.

**Mr B. Ward:** I think it is also important, the point Mr Christopherson made about having the writers reflect which organizations expressed these opinions. That would be helpful as well, because we have met with a large number of groups and I do not recall which organization, if any, told us, "At the same time, those companies which were unable to compete successfully failed." I do not recall which organization told us that. When they redo this report, when they slot these opinions in, then as a committee, under observations and recommendations we can agree, disagree or expand on whatever we have heard.

**Mrs Sullivan:** You might want to look at the CIBC. The chief economist for the CIBC was quite direct in her discussion relating to the lean and mean operations that would exist after coming out of this recessionary period.

**Mr B. Ward:** As most of us have, I missed some meetings when we were consulting with the organization. So as they redraft this report, to slot in which groups or which representatives expressed these opinions would be helpful as we firm up our own observations and recommendations.

**Mr Phillips:** Can I make another general point?

**The Chair:** Are we off that point?

**Mr Phillips:** Just because I think we are going to break at 3:30. The challenge for us, I think, is to make sure we do not forget areas that may be important but did not appear before us, that we each reflect on them a little. I think there is always a tendency to hear the squeaky wheel. I do not know whether I have them all right, but there were very few people from the environment here; a year ago or two years ago, I think we would have had them here. I think we should at least think about that so our report is not incomplete. Similarly, I do not think there was anybody from policing here, whether that is an issue or not, nor rapid transit. We had all the road builders, but none of the—

**Mr Sutherland:** We did get Transport 2000.

**Mr Phillips:** Did we? I do not remember that. We had somebody from pulp and paper—I guess they did send one in—and mines. Those were five things that at least I am going to think a little about, to make sure we do not forget. They are important areas; just because they did not happen to make an appearance. I wanted to raise that before we go away so that when we issue this report somebody does not

say, "Well, how could you ever consider an economic port without"—whatever it is.

**Mr Christopherson:** Mr Chair, we are a few minutes away from adjournment. Maybe we should end it right there. We have completed page 4 as far as we are concerned. As long as we have another month and one hour we will get through this, no problem. But we would like to adjourn rather than start into another page, which could take us into—

**The Chair:** Perhaps if we could all come back tomorrow morning at 10 o'clock having examined it, we could maybe move a little quicker through the preambles, then we can get into the recommendations.

**Mr Christopherson:** By way of process, I assume we will continue this way; if we can expedite it, fine. At least having done it once, we have some sense now of how it might work. It would appear that there are some differences but at least a certain level of co-operation on the parts, and I think that is very helpful.

Could I ask how we would proceed with the observations and recommendations part? I understand how we do the text. Does anybody have any suggestions? For instance, does one of us want to start out with what our thoughts would be on it and then let the others put their thoughts out, or what would you suggest?

**The Chair:** Just by way of interjection, we have to guess we will be getting it by tomorrow morning—all the recommendations that all of the groups put forward. This is just a thought, as you asked—

**Mr Christopherson:** You are not going to suggest that we do every one.

**The Chair:** Perhaps we could go through it in caucuses, and decide what we want to do, where we want to go with this, or, if you want, how you want to come back with recommendations.

**Mr Christopherson:** Let me try something out. We can come back, if you wish, as we have done here: We will take first cut in terms of what we would like to see, and then let's see if there is any chance at all of any kind of consensus that could be found by tinkering or playing with it; if not, then maybe a recognition that that is going to be our position, it is the majority position, and that the dissenting reports that are more than likely to follow are going to take their own position.

In fact, if either of the two opposition parties wants to counter with its proposal to show that maybe we are not that far apart, that we can close the gap, then by all means. But if there is a recognition that we are way off the beam, then why beat a dead horse? The reality is that the majority is here and you have your opportunity for dissent. What we would like to see us focus on maybe is those things that could work to find compromise, to find consensus, because that is going to be the real beneficial material, quite frankly, because it has the non-partisan hat.

**Mr Stockwell:** I do not know about the other parties but our recommendations are ready. I do not know if you have had a chance to do your recommendations.



**Mr Christopherson:** No, that is what we are going to now.

**Mr Stockwell:** If you can bring those recommendations forward, I do not see that it would be a big problem if I want to exchange and see if there is any common ground. Frankly, I do not think there is, but I am prepared to discuss them.

**Mrs Sullivan:** We read yours in the paper the other day.

**Mr Elston:** To quote from page 5, Mr Chair, "The general theme is one of considerable uncertainty."

**The Chair:** We are adjourned.

The committee adjourned at 1531.

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**Chair:** Wiseman, Jim (Durham West NDP)**Vice-Chair:** Hansen, Ron (Lincoln NDP)

Christopherson, David (Hamilton Centre NDP)

Jamison, Norm (Norfolk NDP)

Kwinter, Monte (Wilson Heights L)

Phillips, Gerry (Scarborough-Agincourt L)

Sterling, Norman W. (Carleton PC)

Stockwell, Chris (Etobicoke West PC)

Sullivan, Barbara (Halton Centre L)

Sutherland, Kimble (Oxford NDP)

Ward, Brad (Brantford NDP)

Ward, Margery (Don Mills NDP)

**Substitution:** Elston, Murray J. (Bruce L) for Mr Kwinter**Clerk:** Decker, Todd**Staff:**

Anderson, Anne, Research Officer, Legislative Research Service

Rampersad, David, Research Officer, Legislative Research Service





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Le mardi 5 février 1991

Comité permanent des affaires  
économiques et financières

Consultations prébudgétaires

Chair: Jim Wiseman  
Clerk: Todd Decker

Président : Jim Wiseman  
Greffier : Todd Decker

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday 5 February 1991

The committee met at 1014 in committee room 2.

### PRE-BUDGET CONSULTATIONS

**The Chair:** We can begin. I think we have a sufficient party representation here. If I remember correctly, we had struggled to page 4. We had finished page 4, complete. Do we have any reconsidered changes or comments?

**Mr Elston:** Are we heading back to page 2? Are we picking up all the stuff that was left off or are we going to the end?

**Mr Christopherson:** No, we will not be heading back. We will just keep pushing ahead for today.

**Mr Stockwell:** So, are we on page 5?

**The Chair:** We are about to start page 5. Is that right, Mr Elston?

**Mr Stockwell:** Yes.

**Mr Christopherson:** We have "Forecasts" on the bottom of page 4. We are okay on the first paragraph at the bottom of the page, Mr Chair.

**The Chair:** So we are at the top of page 5, "The general theme." Is that satisfactory with everybody?

**Mr Christopherson:** First paragraph on 5 is okay with us.

**The Chair:** Okay, second paragraph.

**Mr Phillips:** Does that mean 1991 or 1992?

**Mr Rampersad:** Sorry, that is 1991. That is a mistake.

**The Chair:** I am glad to see Mr Phillips is alert this morning. Any other problems with paragraph 2?

**Mr Christopherson:** The "should" in the second-last sentence. We were more comfortable with "may."

**The Chair:** "Sales tax, should boost output." You want to change "should" to "may"? Anybody have any problems with changing "should" to "may"? All right. Can we write off paragraph 2 as being completed? Paragraph 3.

**Mr Christopherson:** Two things. It says "the inflation rates are likely to rise," and yet we heard from a number of people who said that there virtually would not be any inflation of any significance because of the recession. We were a little confused by that. Then we were not comfortable with saying "substantially in 1992." Again, I did not think there was that much confidence out there. We are more comfortable with "somewhat."

**Ms M. Ward:** There appears to me to be a contradiction too between that and the next paragraph on inflation rates, because they are saying "likely to rise" and the last paragraph mentions a "reduction in inflation rate" in the second line.

**The Chair:** Yes, I see that.

**Ms M. Ward:** So, while you are speaking of that point, I thought you might consider this one at the same time.

**The Chair:** What you are saying is, you cannot have it both ways, paragraphs 3 and 4. Should we have that whole section reworked, and how would we want it reworked? The forecasters were projecting a flat inflation rate at the very minimum. Towards the end of 1991 they were expecting an increase in employment or a flattening out and a gradual beginning of the upturn of the economy.

**Mr Rampersad:** But we did have signs of it declining during the year.

**The Chair:** Then if the third paragraph refers to Ontario, maybe it should say "in Ontario" and the next one should say "in Canada as a whole" somehow. I think we need to make that distinction there. Okay?

**Mr Christopherson:** Rework those two paragraphs and then after they are redrafted we will take a look at them fresh. When would we get the first draft of some of the changes we have talked about, or are we waiting to go through the whole document? Second, how will they appear? What is the format?

**Ms Anderson:** It is up to the committee how you want to do it, whether you get it on a piecemeal basis or whether you go through the whole draft once and then you get a whole revised draft back. That is up to you. How you get it, the way we usually do it is something called red-lining, where you get a version that will look like this, which has Xs through bits that have been taken out and underlining on bits which have been inserted.

**Mr Christopherson:** I see. If possible, if we could get chunks of it as they are done—I realize there is only so much that can be humanly done, but I think it would make it easier for us to keep the flow going—as quickly as possible.

That is it for us on that page, Mr Chair, obviously.

**Mr Elston:** I know that we all know "83 and 84 cents" is against the US dollar, but perhaps for completeness it could be added.

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**The Chair:** This is Table 1: Ontario Economic Outlook (A Comparison of Forecasts—to follow). This is the table that will go in at that point. Has anybody any questions or problems about the insertion of this table at that point?

**Mr Christopherson:** No, just a question. I am trying to think. We had talked over here about forecasters and how accurate they had been. It is a good reference point. There was Informetrica. Is that how you say the name of the company? Were there any other forecasters that came in? No? They are here. Could they be added? Could Mike's projections, if they are available, be added?

**Ms Anderson:** They did not actually have any numbers, very much. They had graphs.

**Mr Rampersad:** Whatever numbers he mentioned were Canadian as opposed to Ontario. These are Ontario numbers.

**Mr Christopherson:** Okay. That is fine.

**Mr Phillips:** He is a smart forecaster.

**Mr Christopherson:** Yes. I was going to say he forecasts often and vaguely.

**The Chair:** It would be interesting to compare these projections with the projections for the last time they made projections.

**Mr Christopherson:** At first glance I thought that is what it was. It would be nice to go back five years and get a sense of those numbers.

**Mrs Sullivan:** I wonder if in this section it might be useful to look at a report that is out from Statistics Canada today. Actually, it was released yesterday. We have not had this kind of testimony before the committee, but we may want to include a caveat in the report. Basically their most recent economic indicator shows a serious decline. Your chief of current analysis says the recession is broadening and deepening and he is quoted as saying, "I cannot see a recovery in any of the major sectors."

**The Chair:** You have me at a disadvantage; I have not read that this morning.

**Mrs Sullivan:** We can get material from Statscan relating to this report. It was released yesterday. They are clearly showing a greater concern than the economists who appeared before the committee. We may want to include that kind of information as a caveat because they are working with the latest leading-indicator changes from the end of November.

**The Chair:** Can we get those numbers?

**Ms Anderson:** We will try to get the material.

**The Chair:** Can we get a copy for everybody in the committee, of all the numbers, not just what is in the newspapers?

**Mrs Sullivan:** Yes, I would think that, sure, the researchers could get it directly from the people at Statscan. These are national figures, but it may be worth while to include them.

**The Chair:** There might be a breakdown.

**Mr Christopherson:** You may want to look at actually incorporating some of that into the body because of the importance of the information and the profile of the presenters. We may want to look at actually incorporating some of that in the body because of its importance and who it is coming from.

**Mr Elston:** I understand that but we may not want to. If you start doing it, next week there may be something else you may want.

**Mr Christopherson:** We would only go until Thursday.

**Mr Elston:** I understand that, but none of us has really taken a look at it. It is nice to have that as a caveat just to draw people's attention to the Statscan material, but it is a little hard to include it in a report when you have not really

been able to sift and digest it. Do you know what I mean? We can say we have put our material together without assistance of this, "but please note for a more current analysis the Statscan material which was released" whenever.

**Mr Christopherson:** I think it is a point well taken but let me ask a question. Do we still have the native group coming in?

**The Chair:** They have not responded and I would assume at this point that it is no, since they will be meeting the Treasurer on Thursday. However, I have also heard from Mr Elston that if they did want to come, we should perhaps listen to them, and that of course would be decided here.

**Mr Christopherson:** I guess the point I was getting at was, even as late as yesterday morning we were still receiving submissions and acknowledged that some of that material could indeed be in the body of the report. I was looking at this in the same light, given the fact that it is coming from Statscan, that is all.

**Mrs Sullivan:** I think my point was just that it would be useful to note that there are other indicators that are changing things over time. These are national figures. They are not specific to Ontario, nor do they release a breakdown for Ontario. Just on that page, it might be useful as a caveat, to say there are other changes that are being seen. I do not think it should be a very big thing. We have not had any interviews with Statscan, we have not viewed its material, and it would be unusual to include a further data in the report, but I think that just to say that this report has been issued.

**Mr Christopherson:** At the very least I think that should happen. I would just suggest that maybe, from where we come, we may reserve the right to look at whether we think it should be in the body or maybe make it part of our observations.

**Mr Elston:** What I do not understand is, where do you come from? I do not understand how you can ask us to include very much material in the body of the report when we have not seen the thing. I think Mrs Sullivan has rightly brought to our attention that there are other things being put out even as we make our report. How can you ask the committee to include some material in the body of the report from that when we have not seen it yet or had the time to analyse it? I think if there is a caveat, that is enough.

**Mr Christopherson:** I did not suggest that all of the report had to be included, or a heavy analysis, but much of our deliberation has been how deep, how wide, how long in terms of the recession, and if there is information that is merely conclusive and being reported by Statscan then there may be a value in our at least referencing that information in the body as part of the text somewhere. I am just suggesting maybe that is something we should at least reserve the right to look at. I have not had the benefit of seeing the information either, but it may be that a sentence or two would be appropriate and that the committee would have a high comfort level on that.



**The Chair:** We have had a request from the press for copy of this document as we are working on it now. They're here. The question is, do we share it with them in its current state, or how do we want to deal with this?

**Mr Stockwell:** Sure, give it to them. Since we are in public, you have to give them a copy.

**Mr Elston:** Let's give them a copy and then go in camera. You have learned our provincial secrets, take it back.

**The Chair:** Not only that, let's change everything.

**Mr Stockwell:** You missed a story yesterday, a thorough, conclusive—that was the story of the day.

**The Chair:** Can we say page 5 is done and move to page 6? I have this nature about me, I like to move along. On page 6, are there any changes, comments?

**Mr Christopherson:** Other than the heading, we have no major concerns, unless other members from even our caucus have something they have noticed after that. I have nothing to present on our behalf other than the heading change.

**Mrs Sullivan:** What is your problem with the heading?

**Mr Christopherson:** We were suggesting dropping "answers in," leaving "partnership" and just adding an "s," "partnerships."

**Mrs Sullivan:** Is this a new secret NDP word?

**Mr Christopherson:** Nothing is a secret, Barbara. It's an NDP government.

**Mr B. Ward:** Open and honest.

**The Chair:** This is the first time these committee hearings have been done publicly.

**Mrs Sullivan:** Pardon me? I object to that, because in fact the committee has always operated in public. It is unusual for a committee report to be prepared in camera. I object to the fact that you have indicated that this is the first time the committee hearings have been done in public. They have been done in public since they were initiated in the last government.

**The Chair:** Then your information is different from mine. Shall we continue? Anything else on that page?

**Mr Christopherson:** No, we are okay.

**Mr Stockwell:** How about "Partnership in Answers"?

**The Chair:** Can we write that page off? Are we happy with that page? Page 7. No problems with page 7?

**Mr Christopherson:** No.

**The Chair:** Page 8?

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**Mr Christopherson:** Third paragraph, second sentence, the phrase "despite the overall surplus." We have some difficulty with that. In reading it, it could be implied that there is a surplus of non-profit and co-operative housing or affordable housing, so we felt more comfortable just moving that, so it would read, "The committee also learned from a number of non-profit and co-operative housing groups that there is a continued need for affordable housing."

**Ms Anderson:** I put that in initially because in the first paragraph it talks about there being a large inventory of housing. It was just to explain that the need is for affordable, as opposed to being a shortage in general. But I think it probably can just come out.

**Mr Christopherson:** It was a little hazy.

**The Chair:** What is the consensus there? "Despite the overall surplus" comes out, and just leave the sentences the way they are.

**Mr Christopherson:** Yes.

**The Chair:** Does anybody have any questions or problems with that?

**Mr Elston:** I am a little slower on this because I did not hear the presentations, but can I hear the reason for "the overall surplus" again?

**Ms Anderson:** In the middle of the first paragraph, it talks about evidence that was here that there is a large inventory of housing at the present in the province, yet you go down to the third one and you are saying there is a need for more housing. I just wanted to show that you had realized there was a connection.

**The Chair:** Can we say page 8 is done?

**Mr Phillips:** A little thing on the interprovincial migration: My recollection was that the immigration numbers were probably at a 10-year high into the province. I realize this is interprovincial migration, but I would not mind if the drafters took a look at the total migration. The implication of this is that we are losing more people out of the province than are coming in, and I do not personally believe that.

**The Chair:** Is not the projection for the greater Toronto area to grow at 250,000 a year for the next 10 years?

**Mr Phillips:** It is just a small point. What they are saying is that more people left the province to go to other provinces. That may be the case, but I think there was a record number of immigrants who came into the province last year, at least a 10-year number.

**The Chair:** We will check that.

**Mrs Sullivan:** I am looking at the final paragraph on page 8, where we have basically a summation of some of the initiatives that have been brought to us from the outside. There are two I do not see here, one of them being a proposal that I think came from the Ontario Home Builders' Association, but it may be in Toronto, relating to a new home ownership incentive; the other relating to proposals from at least two co-operative housing groups talking about the need for the availability of changing existing apartment buildings into co-operatives. They were presented as alternatives as much as some of these other things were, and came from at least a couple of groups that appeared before us. I have not checked this back from this paper, but they were there as recommendations.

**The Chair:** Is it not on the top of page 9?

**Mrs Sullivan:** I am not sure, but if we are going to be listing alternatives and recommendations that were placed before us—

**The Chair:** "Subsidies towards the financing of non-profit rent-geared-to-income housing; facilitating the conversion of existing units to non-profit; opening up the bids for construction of non-profit housing to the private sector." Top of page 9.

**Mrs Sullivan:** You have that. Sorry I missed it. There was also another one with a recommendation for new incentives for home ownership.

**Ms Anderson:** I mentioned that briefly in the housing section at the end, where there has actually been some overlap, but it could come forward into that one.

**Mrs Sullivan:** Where do you have that?

**Ms Anderson:** The conversion one is at the top of page 9. Under "Social Issues," there is a short section on housing, on page 16, in which there is some duplication with the section on construction. At the bottom of that, there is the suggestion for expanding the home ownership plan. I think in many ways those two sections could easily be combined.

**The Chair:** Are we happy with page 8?

**Mr Christopherson:** Yes, with that one change.

**The Chair:** Page 9? Are we happy with the first two paragraphs? Okay, let's move to "Education."

**Mrs Sullivan:** I think there should be some clarification of the figures in the first paragraph, given the testimony of the Minister of Education before the committee. I wonder if the writers could reformulate the description here. "At present, the province funds 45.4% of total expenditure (including capital and pensions)," 41% of total operating expenditure, 59.6% of capital, pensions and approved expenditures. I think these figures are confusing enough. The minister spoke to the committee in a way that was quite definitive and I think it is important that this should be further delineated, and maybe the researchers can do—

**Ms Anderson:** You to want to expand in order to just define it better?

**Mrs Sullivan:** For instance, "total approved expenditure" or "total expenditures to a cap": "At present, the province funds 45.4% of total operating expenditure." Maybe that does it.

**Mr Christopherson:** What is being suggested?

**Mrs Sullivan:** Just the addition of the word "operating."

**Mr Christopherson:** Where?

**Mrs Sullivan:** In "45.4% of total operating expenditure."

**Mr Christopherson:** It is not, though. That is the difference between the two, is it not?

**Mr Stockwell:** No, it is operating, plus capital and pensions, and then just operating.

**Mrs Sullivan:** "Total operating expenditure." That clarifies it.

**Mr Christopherson:** Wait a minute, though. I am not at variance with what is being suggested. I think that might muck it up even more. "At present, the province funds 45.4% of total expenditure (including capital and pensions) and 41.5% of operating expenditure." Maybe if it said "operating expenditure" alone, if you wanted to clar-

ify it, but the way you are adding it in I think maybe makes it a little more unclear.

**Mr Stockwell:** Why do you not say "total operating expenditure, plus capital and pensions, and 41.5% of operating expenditure." Put "plus" instead of "including" that clears it up.

**Mr Christopherson:** I disagree, but I do not want to make a mountain out of a molehill.

**Mr Phillips:** Actually, what she says is technically right. I think we have not seen the end of this, because I think you are going to see sort of a bit of a firestorm eventually coming at you, but that will be fine.

**The Chair:** Do you mean the paragraph will be fine?

**Mr Phillips:** Yes, because I do not think there is a confusion out there about what was meant. It is just how you may try to interpret it in the future. My question is the bottom paragraph.

**The Chair:** Could I ask you to wait until we finish that paragraph, and then we will do yours? You will be next.

**Mr Phillips:** I would think it is technically correct to say, "the province funds 45.4% of total operating expenditure (including capital and pensions)." That is technically correct.

**Mr Stockwell:** They are separate. You have operating expenditure, you have capital and you have pensions, so you can say "of total operating expenditure (plus capital and pensions) and then you have "41.5% of direct operating expenditure," just operating.

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**Mr Christopherson:** Actually, you could lead in by saying "using the "41.5% of operating expenditure only, and 45.4% of total expenditure (including capital and pensions)." I think it is fairly clear then that you are saying "operating plus those two. The problem is that you are using the inclusive clause first, and then narrowing it down to a single definition in the second part of the sentence, which is probably what is confusing it.

**Mr Stockwell:** Fine. Reverse it. Let's go.

**Ms Anderson:** We will redraft it and bring it back to you.

**Mr Phillips:** My comment is on the last sentence. I would prefer to say, "However, some groups suggest that it must be taken to ensure..." The reason I say that is that I would think teachers never anticipated that the new government's proposal to increase funding for education was designed solely to reduce property taxes. If you want to avoid another firestorm, I just do not want to attach myself to that conclusion. I would say, "Some groups suggest that it must be taken," because I tell you, you have enough problems on your hands.

**Mr Stockwell:** I would rather be more specific in what I am disagreeing. I think it is the Minister of Education and not everybody else. There is no disagreement among the people who came in and made their deputations to us. The only disagreement lay with the Minister of Education's interpretation.



**The Chair:** I do not know if we need to worry about who is agreeing with whom. We have the recommendations to make.

**Mr Stockwell:** It adds to your recommendation or gives you a certain degree of base to make the point that it is everyone disagreeing with one person rather than implying there is some kind of split. There is no split. Everyone sees it as 60% of operating, except the Minister of Education.

**Mr Christopherson:** That is not the issue.

**Mr Stockwell:** I think it is the issue. I think it is very important to point that out.

**Mr Christopherson:** No, no, it is the last sentence that is being focused on right now. All that is talking about is whether there will be a relative reduction in property tax. I think an important point has been made by Mr Phillips that we word it—how was it again?—"Some groups suggested," rather than saying, "However." I think, from where we sit, that makes a great deal of sense.

Having said that, if you now want to raise the other side, that is fine, but it is really not part of this sentence.

**Mr Stockwell:** I will raise it as a separate issue.

**Mr Christopherson:** Just to get this one done.

**Mr Stockwell:** But I would like to include it in that paragraph before we go into the explanation.

**The Chair:** Let's deal with the sentence and then deal with that. "The committee heard from groups that care must be taken..."

**Mr Phillips:** It was, "However, some groups suggest..."

**Mr B. Ward:** Yesterday, we as a committee gave directions to staff that when we rewrite this, they be more specific as to which group said what or which groups of organizations said what. I think this is another example, not all groups said this. Some did.

**Ms Anderson:** You say if three groups have said it, I pick one, then?

**Mr B. Ward:** Use your judgement.

**The Chair:** You could put in a bracket, the way I think the other was, OSSTF or whatever.

**Mr B. Ward:** I do not think that is really necessary. I think we clarified that yesterday and gave direction. I was using this as another example for the need for that action to be followed as we do our final draft.

**The Chair:** Shall we deal with Mr Stockwell's comments now?

**Mr Stockwell:** As I said, I do not think we should give the impression that there is a debate out there with sides lining up. There is one side, which is the Minister of Education, and the other side is everybody else.

**Mr B. Ward:** Not everybody.

**Mr Stockwell:** Well, everyone who came before this committee.

**Mr Sutherland:** Not on this specific issue. The "60% of what?" I believe came up when either Mrs Sullivan or Mr Phillips asked a question of some of the representatives: "Sixty per cent of what?" It is the same reference to

the discrepancy Mr Phillips and Mrs Sullivan seem to have with the minister over whether, when the commitment was made in the campaign, it included pensions or not, capital and pensions. The "60% of what?" is not directly related to that, so it is not coming up in the same context of the disagreement they seem to be having with the minister. It is not every group against that.

**The Chair:** If I remember the response Mrs Boyd gave to Drummond White's question, it was that in fact it was very much her concern that the funding increases reflect a corresponding decrease in the burden on property taxes.

**Mrs Sullivan:** Did she say that?

**The Chair:** Yes, she said that. The gist of that conversation was that the province may give a great deal more money to education, the mill rate may go down in education, but it may be swallowed up with an increase in mill rate from municipal taxes so that the municipal taxpayer has a net zero improved position, and did not want to see it swallowed up. That, if I remember correctly, is the gist of that.

**Mr Phillips:** The minister said some things that are going to get you guys in a lot of trouble, but that is your problem. She said the 60% funding included pensions and capital, while the teachers the next day said, "You'd better clarify that or you've lost your credibility with us." The minister said there would be ceilings put on spending, and you saw the response of school boards. I do not remember the minister saying there must be a proportional decline in property tax. If she did, that also would be very interesting to the teachers of the province, because that will not be their interpretation of the election commitments.

I tend to agree with Mr Stockwell, actually. I do not think there was any confusion at all among the trustee groups or teacher groups about what is in and out of the 60%, because this is their rallying cry.

**Mr Sutherland:** I think the question is 60% of not what is included, but coming to a definition of what 100% is, even if you have certain elements in there.

**Mr Stockwell:** I think the point we are trying to make is that there is no discussion here, that there is not disagreement. There is a disagreement. What I am trying to point out to you is that we are giving the impression that there is a disagreement out there and there are so many people on this side and so many on that side. All I want to do is clarify that the ones who made deputations to us were very clear. They knew exactly what they were talking about. They were talking about 60% of operating, and the Minister of Education was disagreeing with everybody else. Rather than leaving it in there that there is some disagreement out there, there is not. There is the Minister of Education's version and everybody else's.

**Mr Sutherland:** But that in itself, until you agree upon a 100% figure, whether you include those things or not—

**Mr Stockwell:** Everyone is agreed on the 100% except the Minister of Education.

**Mr Christopherson:** But this language does not negate anything you are saying, it does not negate anything we are comfortable with. As a committee report on the issue, we agree with the researchers that this clearly reflects what is going on. Our suggestion would be that if you disagree with that to the point where there should be a delineation between who is disagreeing, then I think that could be done under observations, either the committee's or your own. But we are quite comfortable with this, and I think this is fair language.

**Mr Stockwell:** Could we not include, "A part of the argument lies in deciding '60% of what?' The Minister of Education's interpretation is..." and then "pensions and capital included, and everyone else's is..."

**Mr Christopherson:** No.

**Mr Stockwell:** No?

**Mr Christopherson:** I am just saying we are not comfortable with that. If you wish to go with that language in any dissenting position that is obviously your right, but we are not comfortable with it.

**Mr Stockwell:** You are suggesting that that in fact was not the case, or you just do not like the language?

**Mr Christopherson:** I said we are more comfortable with what is right here in front of us in draft form and are supportive of this.

**Mr Stockwell:** I understand that. I am asking you about what I suggested. Are you telling me that that in fact did not happen, that those were not the depositions we heard? I am very clear that that is what they told us, and I am trying to write a report that reflects—

**Mr B. Ward:** On a point of order, Mr Chairman: All discussion is supposed to go through the Chair, and it is obvious that we have a cross debate here.

**Mr Stockwell:** I am speaking through the Chair, Mr. Chairman.

**Mr Christopherson:** Clearly, the answer is that we are very comfortable with the language that is here.

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**The Chair:** Could I just clarify what exactly Mrs Boyd said? It is right here. It says:

"Let me be very frank. You cannot, and that is why we are saying that under this particular funding system we cannot have the assurance that if we increase our funding that will necessarily mean that local boards drop their mill rate, nor can we be sure that if local boards were to drop their mill rate for the education portion of the taxes that the municipalities would not step in and take up the slack. That has happened in the past. This is a real issue around surety and certainty, around being sure that whatever moves we make will translate into property tax savings for home owners. Frankly, under the current system, the way it is, there is no way for the provincial Ministry of Education to ensure that this is going to happen. We can try to exert lots of public pressure and lots of moral suasion on local school boards around the way in which they raise taxes and hope that that rolls over into the municipal area, but quite frankly our experience in the past has been, and there was one particular point in time that a lot of school

boards amalgamated...." So her comment there, I do know how you want to use that but that is exactly what said.

**Mr Christopherson:** Thank you.

**The Chair:** Are there any other comments on page

**Mr Stockwell:** I do not get agreement on that, then

**The Chair:** I have not heard agreement.

**Mrs Sullivan:** Do you have that Hansard?

**The Chair:** That is just a rough draft; it is not a complete copy. Any other comments on page 9? Seeing no page 10. Are we happy with page 10?

**Mr Phillips:** I think one of the key observations many groups was a worry that the tax commission would be two or three years in reporting, and they were concerned at it being seen as something that delays some of the reforms they wanted. Certainly I found that within the educational community, saying they would not find it very comforting if that were used as a vehicle for holding back. So I would think one of the observations should be that somewhere, particularly under education, that in the meantime property tax needs relief. That is the idea I am trying to get at. Virtually all of the groups said, "We cannot wait for the Fair Tax Commission, or whatever it is going to be called, to report before we see some relief on our funding requirements."

I would think that a paragraph on page 10, before we get to "Committee's observations and recommendations" should be that while the Fair Tax Commission is seen as a useful vehicle for attacking the long-term problem in the next two to three years, the property taxpayer still needs relief from the educational burden. That was what I got out of them.

**The Chair:** I do not know how much of that was a clear position presented or whether it is more of an observation from a partisan point of view. There was a number of people who came forward, some of whom felt that many aspects of the Fair Tax Commission were legitimate in terms of the time that will be taken to look at things. Others felt that because of its priority, it should be set aside and some things addressed immediately, but to suggest that it was a clear position that property tax specifically was something that should be addressed immediately in terms of relief, personally I do not recall that.

**Mr Phillips:** Maybe we are going to have to go through all the briefs because that was clear signal I got from them, saying, "Listen, don't use the Fair Tax Commission as a delaying tactic for us."

**The Chair:** Yes, but there were also clearly positions taken by a number of groups that said they recognized the complexity of things. AMO came forward and said that in terms of property tax and municipal cost-sharing, it was interested in the relationship as much as anything else as put a figure merely of, I believe, an inflation rate to take them over. They called it a transition. We are in a transition time.

**Mr Phillips:** I am on "Education: Elementary and Secondary." I am thinking back to the school boards and the teachers' groups, and my clear recollection was, from



their comments, "Be careful of delay on this important matter," using the Fair Tax Commission as something that will delay it.

**The Chair:** Have you any specific recommendations regarding and then we can debate that and decide whether it goes in or not?

**Mr Phillips:** I do not want to word-split the thing, but broad form is, at the bottom of that second paragraph, in the meantime there was general consensus from the groups that while the Fair Tax Commission's work goes on, the property tax will still need relief over the next 24 months."

**Mr Christopherson:** I do not know that there was general consensus. I am trying to be fair. I am just sensing a little bit of partisanship in terms of suggesting that it is going to be used as a delaying tactic. That is not our position at all. Obviously it is a question of things will move as quickly as they can, but some of the complexities involve time. Then, to go further, the Treasurer has said if there are recommendations that the commission is comfortable with making more quickly, before its final report, by all means, we would encourage that.

I am just not as comfortable that what you are suggesting is entirely non-partisan and merely reflective of what came forward. I think we would be prepared to look at anything the researchers wanted to bring forward, especially if it identified a particular group that wanted that, but I think, starting to get into general consensus and over-concerns about deliberate delaying, or delaying, I think it is a little problematic for us.

**Mr Phillips:** What I am saying is that the groups said they cannot wait for the Fair Tax Commission's report before they have relief.

**The Chair:** Can we leave it, then, that if the researchers can find a specific group that said that, it would be included at this point and attributed to it as its comment, and in the absence of not being able to find it, it not be included?

**Mrs Sullivan:** You might find it in the Ontario Public School Boards' Association presentation and in the AMO. It seems to me it was raised by both of those groups.

**The Chair:** Then if we can find that, is there a consensus that if the comments can be attributed to a specific group, it can be included?

**Mr Christopherson:** No. What I suggested was that we be prepared to look at anything the researchers would like to bring back and we would ask that if that is being done, having it attributed would help. We are not agreeing on anything ahead of time until we have something in front of us.

**The Chair:** Can we move along, then, and come back to that?

**Mr Christopherson:** Yes, during the draft.

**Mr Elston:** Just an observation: I used to do a fair bit of this work. I have not done very much committee work recently, as you might have expected. When Mr Christopherson indicated that when there was sort of a negative implication from some testimony from some of

the groups, at least felt to have been expressed by Mr Phillips, that to have it included in this report somehow made it a partisan-type of an application, that is not the way this place used to work.

If there is bad stuff to be said in a report, it should be said, because it really then encapsulates what people have come forward in public to say. Just because we asked to have some material placed in the report does not make it partisan, but it does make it complete. I am not here to help sanitize the report or anything, if that is what you are suggesting. I do not know that you were, but it is a bit of a dangerous type of a statement. Just because somebody said negative things, and you have to go through negative things in government, you cannot remove them all from the report. I just wanted to remind people—

**Mr Christopherson:** No, that is fine. I would be prepared to stand by exactly what was said in the Hansard, but if my memory serves me right, part of the language used was that there was a general consensus and then incorporated in that thought was that they did not want the tax commission to be used as a delaying tactic. I think what I was trying to say was, without identifying a specific group and exactly what it said, my concern was with generalized comments like a general consensus and then pointing to possibly using the commission as a delaying tactic or as a delay. I had some problem with that just going in as language we would draft. I think I did say that if something comes back and shows who it was attributed to, then by all means, let us take a look at it.

I would also point out that there have been other clauses, I think, already in the report that we have approved and supported that are less than supportive of positions we have taken or will take. I appreciate your concerns and I think we are being consistent with the objective desires of the committee.

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**The Chair:** Can we leave it at that then, that we will see the researchers bring it back? Next is "Colleges and Universities."

**Mr Sutherland:** There seemed to be a lack of reference to OSAP and I thought there were some mentions of OSAP and maybe some changes to that by some of the presentations. I was just wondering if we could have some reference to that added.

**Mr Christopherson:** That is actually page 11.

**Mrs Sullivan:** I concur with that. I am concerned about the use of the 10% figure in the bottom paragraph of the colleges section. In the Trump written brief and in questioning, what they said was that they need a 12% funding increase to finance the enrolment increase. They have used 10% to say that only a 10% increase could accommodate an enrolment carryover from the previous year. They are anticipating that enrolment will be added to by another 3% and they are asking for the additional 3%.

What they say is, "After a careful review of the present situation, it is our considered judgement that only a 12% funding increase will permit us to adequately finance the enrolment increase (3%) within the system and to handle a

modest growth projected for fall 1991 first-year registrations and also handle employment and pay equity initiatives."

I think the wording should change to indicate the 12%. This is technically correct; in other words, they are saying they cannot accept a 3% increase that they know is coming, but they are saying to accommodate that increase they need 12%.

**The Chair:** Do we have any problems with that? Can we accept that?

**Mr Christopherson:** Was it just the percentage change then? Is that the only change?

**The Chair:** I think you wanted a rewording of the whole next sentence.

**Mrs Sullivan:** Yes, I would reword the last sentence.

**Mr Christopherson:** Could we have a look at proposed wording from the researchers?

**The Chair:** Could you read what you are suggesting? That comes straight from Chris Trump.

**Mrs Sullivan:** I am not suggesting the words, but you could say, "The committee heard that"

**The Chair:** Could we add whom we heard that from?

**Mrs Sullivan:** Yes, "from the Association of Colleges of Applied Arts and Technology that a 12% funding increase will be required to adequately finance enrolment increase within the system," and you could go directly to the text on that point, but rather than use the 10% figure, which is not what they were arguing for, they were arguing for a 12% increase.

**Mr Christopherson:** If it is attributed and the 12% is the figure that they use in the report, we do not have a problem with it.

**The Chair:** That was page 11. Are we happy with page 10, the bottom part of page 10 on "Colleges and Universities"? Now, are we happy with page 11?

**Mr Christopherson:** Yes. It is just that again, with the referencing in the second paragraph, we would like to see if we could reference to the student groups and OCUFA in that paragraph, specifically where they are in agreement. Correct?

**The Chair:** Yes. Their numbers were pretty close to being the same.

**Mr Christopherson:** We would just like to see that in there.

**The Chair:** Okay. "Business and Labour," bottom of page 11. Page 12?

**Mr B. Ward:** I think if you look at the second paragraph on page 12, I am not quite sure and I doubt if anyone else in this committee is quite sure which groups made these observations or statements in their delegations to this committee, so I think that should be as an example, with the research staff identifying which groups of the business sector made these comments or suggestions.

I can recall asking the auto parts manufacturers whether they would be willing to work in co-operation with labour in developing a sectoral agreement on skills development. I think that perhaps could be mentioned, if not in that second paragraph then in the last paragraph,

which more or less addresses the need for skills training our province. I think the researcher will take note of that is a fair observation.

**Mr Christopherson:** Perhaps we can finish the discussion on what is already here and then I have a couple paragraphs to suggest for inclusion.

**The Chair:** I do not know how we want to deal with this, but Mr Elston did raise the point that this would read as, "Ontario in the past has been an attractive location." Is that okay the way it sits from the point of view of the kind of message we want to send if somebody in New York reads it?

**Mr B. Ward:** Perhaps that comment or observation was made by a group, but we should be identifying which group because if you look at that paragraph in particular "in the past," and then it refers almost that under the Liberal government in fact our competitiveness has been eroded because of whatever reason. I do not entirely agree with that and I do not think the Liberals would either.

I think we should be looking at who made these statements. I think it was our job to sit and listen and then make recommendations based on what we heard. Whether we agree unanimously or not is another story. But as long as the research and the development of this section can identify which sectors of business or labour made the statements, that would make it a lot easier for anyone who is trying to read this report and follow the recommendations that will come forth.

**The Chair:** I think Mr Sterling would be very interested in the comment, "Recent tax changes in Ontario and neighbouring jurisdictions have reduced Ontario's advantages." I would think he would want to see that, see the numbers on that to see if that is an accurate statement to be made. I am just throwing that out as something to comment on.

**Mrs Sullivan:** I think there is a perception in the business community that came before the committee that tax changes are the significant factor in competitive comparisons. The sense of discussions as they were going through was that in fact there are other measures that have to be included in those comparisons, including things like cost of fringe benefits and so on and health care costs.

I concur; I do not like the wording in this area. I would take out the words "in the past" just to start out in the paragraph, but there certainly is a question about the tax advantages in Ontario now when taken alone without some of the other aspects included. What the writers may want to do is to say that presenters have noticed that tax changes which have occurred—first of all, put it in other jurisdictions in addition to Ontario; that changes the emphasis may have reduced Ontario's advantages. But I think we should isolate the tax increases alone, but also talk about fringe benefits, you leave tax changes in Ontario then that is not quite what we should be looking at, or maybe somehow the committee ought to be including that there are other things as well to talk about on Ontario's competitive position.

Some presenters, including the auto parts sector, indicated it was not only the tax and the fringe, it was cost



ductivity that was reducing our competitive nature. I do not like limiting it just to tax changes or to taxation.

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**The Chair:** If I remember correctly, they also commented, though, that there were positive advantages. When Mr Phillips talked about the cost of the medical plans in the United States as compared to Ontario—

**Mrs Sullivan:** That is exactly the point I am making.

**The Chair:** —there was a huge advantage for southern Ontario as opposed to the neighbouring state. With the concurrence of the committee and Mrs Sullivan, is that anything else that maybe we should include there?

**Mrs Sullivan:** That is the precise point I am making. The tax changes I do not think were accepted in our questioning as the only thing that reduced competitive advantages. Just take out the sentence maybe.

**Mr Elston:** If I could interrupt for a second, why would you just not reconstruct this to indicate that Ontario's continuing competitive position in the North American economy will be dependent upon taxation measures, competition from other jurisdictions in North America, both from a social and wage point of view, and the continuing need for provision of skilled labour? Why can we not make that paragraph say that? That would wrap up everybody's concerns about taxes, jobs and competition from other jurisdictions.

**Mrs Sullivan:** Yes, that is good.

**Mr Elston:** That does not say we have lost anything, does not say we have gained anything, but that those are my-item suggestions.

**Mr Stockwell:** I certainly do not want to send any messages to people in New York who would apparently have concerns about some wording that we are using, but I think we have to be careful not to create a marketing puff piece here. Yes, there are very good points to what Mr Elston has said, but what did the people say when they came in? They said that Ontario in the past has been an attractive location; we are losing our competitive edge due to a series of things, but number one on the hit parade was taxes. Practically all of them talked about it and the cost.

I agree with what the committee is suggesting, but I think we have to be careful we are not putting together a marketing puff piece here. The facts are I think written quite well: "Ontario in the past has been an attractive location in which business can invest due to factors such as its location" etc., "but recent tax changes in Ontario and neighbouring jurisdictions reduced Ontario's advantages." I think that is very clear. That is what they said.

Although in our conclusions we can draw some other points into the debate that maybe were not brought forward, these are the things that people brought to this committee. I think we should be sure that we outline those. Otherwise, why do we not just go away and write a nice little fluff piece?

**Mr B. Ward:** Let me make a suggestion to speed things along because I do not think we are going to be able to reach consensus as a committee on how this paragraph should look. I would suggest that in particular that sentence

dealing with the auto sector, which really talks about skills, should be included in the bottom paragraph rather than in the section about taxation. If they could rewrite that paragraph, taking into consideration the comments that were made, I think we will not have any concerns as a committee, provided that the research in the draft of the paragraph includes which group said what, so that it is not really a committee statement but it is what we have heard, and relates what we have heard to the groups that made these comments. I think if they do that it could address everyone's concerns in such a manner that we could reach a consensus on how this particular section should read in our final report.

**Mr Elston:** Not to deal with what Mr Ward has just indicated, I want to join issue with Mr Stockwell. If Mr Stockwell wishes to leave this thing about Ontario in the past having been an attractive location, I think it ought to be clear that it is still an attractive location even today. There may be some erosion of competitive advantage, and if that is the case, I think we ought to include a couple of clauses in this particular paragraph which underline or underscore the federal government's determination to erode the auto pact and the negotiations through free trade, which have placed us in a very, very bad position in the North American economy.

If he prefers to leave this at the basis of taxation, that would likewise be writing a bit of a fluff piece and in fact be perhaps some kind of a daisy in his hairpiece, but it would not be a particularly good piece of information to lead the people of Ontario to believe we did not understand the consequences of that particular assault on Ontario and Canadian integrity.

**Mr Stockwell:** I do not want to get into a long debate.

**Mrs Sullivan:** But I will.

**Mr Stockwell:** But I will. If someone had come in and said that, then I think that should be in the text. If we are discussing that and that is the issue and those issues were brought forward by one or two or three people, then it should be there. I am not here to pick and choose what I want to put in here. Frankly, I did not hear it, but if in fact you can find somewhere where somebody said exactly what Mr Elston has just told us, then fine, include it.

All I am saying is, people said this, groups said this. They came forward and mentioned these things. If you want to dig through and try to find exactly what Mr Elston said, be my guest, but do not put it in there just because you feel threatened by what people have said. As you said, we are not here to change the facts. We are not here to not put things in that are not acceptable by our standards. We are here to report on what the deputants put to us. If you find something that people said, then throw it in, but I know for a fact that people said this paragraph.

**The Chair:** I would like to say that yes, we are here to report on what the deputations said to us, but I think we are also here, as we have already done this morning, to include, where possible, information that perhaps was not given to us here. That is what we have done with Statistics Canada.

**Mr Stockwell:** Is that not under "observations and recommendations"?

**Mr B. Ward:** Mr Chairman, again just to speed things along, I think we concur with all the comments that have been made. We do not want to fabricate any of the information that we receive, but as long as we identify which groups made the statements, the comments that would be included in this report on this specific issue of taxation, I do not think we would have any concerns.

The problem with the wording is that we really do not know who said it. If you read it in its present context, it appears the committee is making the statements and that is something we want to avoid, because we want to include what groups have told us. If the research can take us back and identify which groups made the statements and include as much as possible on the issue of taxation, because it is a very important component of our province, if those circumstances are taken into account, everyone on the committee can agree with what the research comes back with and then we can move on.

**The Chair:** Okay, so here are the instructions that I understand from the committee, to take out that section on the auto sector, put it in the last paragraph, find the specific groups who made those comments and include it in that paragraph; or failing to find those groups who specifically said that, to reword this paragraph to reflect what Mrs Sullivan, Mr Elston and you have said with respect to the continuing state of the Ontario competitiveness.

**Mr Phillips:** I am just going by memory on what I heard about the challenges economically, this is pure memory, but number one was the high Canadian dollar; number two was the high interest rates; number three, to me, was just a more general environmental concern about debt or deficits. Taxes, I honest to gosh cannot remember. I honestly do not remember. I am trying to cast my mind to that even being in the top four or five. Can anybody? I cannot remember.

**Mr Hansen:** I think it was the health tax. That was the only one I heard as a tax. It came out because I think it was the parts manufacturers had come to the point where they would like to put a ceiling on a wage of \$30,000 because in the auto industry—I think I asked the question—their concern was that there is a lot of overtime when they are rolling, so that increased their cost when they are very busy. If people make over \$30,000, they are still paying a health tax. They felt it should be capped at \$30,000.

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**Mrs Sullivan:** I think the concerns that were raised included a number of areas. They included tax harmonization on the GST, a tax issue but not taxes. They included, particularly in the auto sector, low-wage-rate states. The corporate income tax was raised as a concern but as only one. The regulatory environment was raised on several occasions. Pay equity and occupational health and safety were raised by several people. Then the needs that were raised included research and development, skilled workers and so on. It seemed to me that taxes were not the overriding issue that was raised as people brought forward concerns about keeping Ontario in a competitive environment.

There was considerable discussion, for instance, about the cost of health care with some of the business groups, a comparative factor against their American counterparts. I vividly recall, partly because of being involved in some of the questions, the discussions relating to the cost of health care being about 2% or less than 2% and the American cost being well over 8%. Those are factual things that I think the research people can find.

**The Chair:** Let me have this correct. You would like to see that reflected in this paragraph?

**Mrs Sullivan:** Yes. I would like to see a more encompassing list of pressures. There is clear concern about the continuing competitiveness of the Ontario economy. I would like to see a more delineated list of those, and I would like to see just emphasis on the corporate income tax.

**Mr B. Ward:** Identify which groups made the statements wherever possible.

**The Chair:** Can we leave that with the researchers to do now? Is there any clarification? Can we move along from this page or is there more?

**Mr Christopherson:** Once we have finished with what was here, we have two paragraphs we would like to suggest for inclusion. I will read it for the record, and if there is no problem then the researchers can incorporate it. If not, then I will maybe just give it to the researchers. If any event and have it included for proposal that way. I will read it, Mr Chair. It is brief. It would constitute paragraphs 2 and 3 on page 12, so it would push everything down a bit that many.

First: "The Ontario Federation of Labour, OFL, has given the committee an indication of the structural dimensions of the recession. The recession which is currently under way in Ontario has a much more significant structural component than did the previous recession of 1981-82. The layoff indicator points to a much higher proportion of job losses attributable to permanent and complete plant closures. The OFL believes that addressing the restructuring problem in this province will require the establishment of active labour market adjustment programs."

Second: "In the longer term, the OFL has impressed upon the committee the need for the government to direct its attention to reducing the vulnerability of the Ontario economy to the recession. The increased reliance on credit by both families and businesses often leads to a significant slowdown as an erosion of confidence is followed by a reduction of debt. In addition, the Swedish model of reserve funds is suggested by the OFL as an important countercyclical device, as it allows companies to set aside funds for an approved countercyclical purpose without incurring a tax liability."

**Mr Stockwell:** Do you agree with that?

**Mr Christopherson:** You will know when we talk about our positions and recommendations. All we are doing is suggesting that this reflects what they said, and we would like to see it incorporated in the body.

**Mr Stockwell:** A reserve account with no tax liability?

**Mr Elston:** Rather than debating America, which you can do later if you wish, it would be unusual, would it not



us to excerpt the position of a particular presenter and include it in the body of the report, which is really what you have done with those two paragraphs, without doing equal time to other presenters?

**Mr Christopherson:** No. By way of background and being totally frank, what we saw in the last paragraph of this section, which appears on page 13, talked about the CFL, the Canadian Federation of Labour, and its proposal in rather clear detail. We did not want to leave the impression that it was the only position brought forward by labour, since we all paid careful attention to Mr Wilson's presentation. In fact, there was a rather lively debate as I recall on the first day, and this is our suggestion as to how the OFL's comments be reflected in the report. That is what it is meant to be, and we are certainly open to comments on that.

**Mrs Sullivan:** Mr Chairman, I just counted up, and I have forgotten the total, but it seemed to me that there were 79 or 80 groups and organizations that have sent materials in to us. In many cases, the OFL conclusions were in concurrence with those that were presented by other economic groups and so on and by business in terms of the need for changes in approaches for skills management. There was nothing that was out of the ordinary in terms of the rest of this document, and to devote two entire paragraphs of the document to the views of one organization and individual who came before us, it seems to me, is out of the question.

**Mr Jamison:** The heading of this section is "Business and Labour," and I think we have a fairly good cross-section. The OFL is the representative of the vast majority of organized workers in this province.

**Mrs Sullivan:** Which is 20% of the workforce.

**Mr Jamison:** If we are going to pay credence to the CFL, which some people would confuse in an abbreviated form as being another organization, I would suggest that the main organization be considered in the point of view, specifically under the heading that we are using here, "Business and Labour." I think it is very unfortunate not to give the Ontario Federation of Labour's point of view a lineated within this section, and I see no problem with that whatsoever.

**Mr Christopherson:** I think Mr Jamison has very clearly outlined exactly the way we feel about it. It is a business and labour section. All through this, there are business and bankers and economists. This is the one area where labour has an opportunity, and so far there is only one paragraph, a good paragraph that should be there, that is about the proposal of the CFL. All we were suggesting is that the OFL presents the other half, if you will, or the other part of the labour perspective, and this is the one place where it has a chance to appear. So in total you have two paragraphs dedicated to labour's position, and I do not think that is an unreasonable position for this committee to take vis-à-vis the entire report.

**Mr Phillips:** Later on we will look at the wording, because I suspect we are going to have more areas where we may not be able to reach total agreement before we are finished with this.

**The Chair:** Okay. I thought we would go in at page 13. Are we satisfied with the section on "Business and Labour" with the instructions to the researchers to write back and come back with it? Can we move along now to "Agriculture?"

**Mr Christopherson:** Just a second. There may be something on that page to revisit; we can do it on a revision, though. That is fine.

**The Chair:** Is there any problem with "Agriculture?"

**Mr Sutherland:** Yes. Specifically in the last paragraph on that page where it says, "high interest rates, debt burdens, volatile commodity prices," I would like to change the word "volatile" to "low." I think they have stagnated for quite a while rather than fluctuated.

**The Chair:** Is there any problem with changing it to "low"? Fine.

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**Mr Christopherson:** Also, the clause second from the bottom, the clause that begins, after comma, "the system of supply management which has an impact on the ability of the industry to meet changing consumer demand." Again, it is not attributed and would appear to be a position of this committee, and we are not entirely comfortable with that and would like either it to be attributed or have it withdrawn.

**Mr Elston:** But it is true, is it not?

**Mr Sutherland:** It is what?

**Mr Elston:** I am saying maybe it is true. Supply management, I mean, that is what it is designed to do, to deal with consumer demand for product. I do not understand what is so sensitive about it. I am not exactly sure.

**Mr Sutherland:** The implication there implies that there is no adaptability within the supply management system and I think there is some adaptability of the commodity groups and the producers who are involved with supply management to make adaptation to differing consumer demands.

**Mr Stockwell:** No, it is not saying that at all. What it is suggesting is that supply management has an impact on the ability for change. I do not think anyone would argue that. Even you would agree that supply management has an impact on the ability for change.

**Mr Sutherland:** Even though the word "strong" is not there, the implication is that you are saying it has a strong impact.

**Mr Stockwell:** No, it does not say "strong;" it says "impact."

**Mr Sutherland:** I realize that, but I think it is automatically implied when you are using the word "impact" here that it would be a strong impact and I tend to disagree on that.

**Mr Elston:** Perhaps, Mr Chairman, if we could just kind of give it a clearer, more positive context, would that assist Mr Sutherland and everybody else?

**Mr Sutherland:** If that can be done, yes.

**Mr Elston:** Supply management is designed in fact to work towards what the needs of the consuming public are supposed to be and it is supposed to be mobile enough to

meet changing requests and things. If it does not quite say that or if it does not mean that, perhaps it can be made a little more clear.

**Mr Sutherland:** If it can be clarified, anyway, to reflect that, that would be super.

**The Chair:** If I read this correctly, the problem is not in the comment so much as in the context in which it is located.

**Mr Sutherland:** Yes.

**The Chair:** There seem to be negatives all around it, which would imply negativity to that. If I read you correctly, you see supply management as a positive and would like to see it somewhere else in a positive context. Is that correct?

**Mr Sutherland:** Yes, that would certainly help the situation. If we can get some clarification back at some point from the research staff on that, that would be great.

**The Chair:** Is that okay?

**Ms Anderson:** I am sorry, I am not quite clear.

**The Chair:** We want to put a positive spin to it.

**Ms Anderson:** You want to move it somewhere else?

**The Chair:** Yes.

**Mr Rampersad:** It is to be moved or do we change the wording?

**The Chair:** Change the wording or move it.

**Mr Elston:** The whole paragraph, if I understand Mr Sutherland's problem, the whole context of that paragraph is, "The farm sector is in difficulty for a variety of reasons," including the supply management issue, which is why it reads that way to Kimble and I do not disagree with his assumption that we should not be perhaps quite so negative in this report.

**Mr B. Ward:** Mr Chairman, I concur with Mr Elston in the sense that if you read the whole paragraph, all those components—in fact, in the last sentence there is, all these components "have hindered the ability of the industry to adjust to increasingly difficult economic circumstances." I really do not think supply management should be reflected in that matter, and should in fact be pulled out of there and perhaps slotted in somewhere else or clarified so that there is understanding from the Ontario Federation of Agriculture. It is my understanding that it is in favour of the supply management concept and that the report should reflect that support as far as the OFA is concerned.

**The Chair:** Okay. Page 14. Are there any comments on page 14?

**Mr Sutherland:** Yes. Actually midway down, again dealing with the issue of supply management, it indicates, "The sectors of the industry under the supply management system are likely to experience the greatest difficulty." I am not sure—if my memory is correct, and we only, I believe, had the OFA in from that area—whether it had indicated that or not. I was just wondering if we could find out. If they indicated that, fair enough. Otherwise, I think it is another statement that we should be conscious about, because my understanding is that when you look in com-

parison, supply management areas are better off than the areas that are not under supply management.

**Mr B. Ward:** A question, Mr Chairman. I cannot call the entire brief of the OFA, but did it not touch subsidies by foreign governments to its sectors as part of the reason? I cannot recall if that was included or not. In fact it was included in the brief, that should be touched as well.

**Mr Jamison:** The presenter also talked about how United States representatives were able to cloud their subsidies a little better than we are able to through our supply management system and subsidies and so forth and expressed that it was a concern. Their concern was clearly revolving around GATT and the international scene. Rather than those subsidies being looked at, the United States, for example, was finding ingenious ways of having subsidies come to their farmers. That really presents a problem, even in the context of realizing what is and what is not a subsidy between the two. That in itself was a major concern about the competitiveness between the two countries, and of course on top of that there was the GATT situation, where you have two major agricultural powers pretty well doing economic battle with one another over that very issue. Those issues, I think, should be well defined, because over and above what we do as far as our own management, they weigh very heavily on the final outcome as to whether or not our agricultural sector really becomes healthier than it is today.

**The Chair:** If I read you, are you asking for an expanded section here to take into consideration those comments?

**Mr Elston:** Why do you not just put a short word? You can put a paragraph on GATT and you could put a paragraph on free trade, if you want, but why not include the foreign subsidy problem under that paragraph that was just removed, the supply management?

**Mr Jamison:** This struggle going on concerning GATT between the United States and the European Community is one that has direct spinoffs, again related to the free trade issue and agriculture and what kind of product is coming in and really undervaluing or undercutting our own farm-gate price. There is a relationship there to what is happening, and I think if we are going to do justice to this section, we should really describe that in a very understandable way. It is nice to make the statements, but I think the OFA was very concerned about that particular issue and the long-term effects specifically on agriculture, and would just like it better defined.

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**The Chair:** Are those instructions to the researchers sufficient to go back and to broaden this area a little bit to take into concern the GATT, the foreign subsidies and the subsidies war and all that sort of stuff that is going on?

**Mr Hansen:** I think the other area we are talking about, the system of supply management, we cannot help in Canada crank down when we have already gone ahead and when we do have an overabundance, let's say, in the United States or other countries. They wind up shipping



ere a month or two earlier or a week or two earlier, and this is what has caused the low commodity prices. When our product does come on line, this is what has affected it. We are running the right system of supply management here, but the foreign countries are actually interfering in our supply management. Is that not what you are saying, Mr Elston? It is something that has to be shown.

**Mr Elston:** It has to be at least delineated. It depends on how long you want the report to be, how far you want to explain subsidies. I will tell you, once you start dangling little bits and pieces about subsidies, you start having people shoot little arrows at you, because you have not fully explained that in Europe it is this way and in the United States it is that way. It is better to highlight it as a difficulty, unless you want to prepare a separate paper on it some other time. Anne's job of explaining the subsidy issue succinctly and clearly in one paragraph is going to be difficult, because it cannot be done.

**Mr Jamison:** It is very important to show a connection, I think, between the various issues out there that we are dealing with on an international basis and also their connection to other things that have happened, concerning free trade for example. When you have a GATT situation and a GATT war going on in agriculture and then you have a free trade agreement, you have a nightmarish kind of situation there and I think that should be described.

**Mr Sutherland:** Provided it is referenced in the report. The issue of defining subsidies is really what needs to be in there. Somehow that has got to be—

**Mr Elston:** That is creating turmoil.

**Mr Sutherland:** That is an issue. Yes, creating turmoil, and defining it from different countries.

**The Chair:** Okay. Page 14.

**Mrs Sullivan:** I want to move to the last paragraph here I think there are some difficulties, on the bottom of page 14 and the beginning of page 15. First of all, the farm credit policy ought not to be similar to the Ontario family farm interest rate reduction program, OFFIRR. In fact, what they are looking for is something that is similar to Saskatchewan and Alberta initiatives. As well, the recommendation was for additional initiatives with the federal government on the Farm Credit Corp. So that definitely is to be changed; that is an inaccuracy. The other words that have to be changed there are "financial assistance," because the credit program is not necessarily a financial assistance; it can be planning, etc.

I am not certain that we had any indication, because the Minister of Agriculture and Food was not here, that the government might implement a stopgap program similar to OFFIRR. That was certainly a recommendation of the Ontario Federation of Agriculture though, so I think that sentence should be changed. In the third sentence, at the same time, what we should say is not "federal support" but "triticite stabilization programs such as GRIP and NISA will provide medium- and longer-term assistance."

**Mr B. Ward:** Are you suggesting that the first sentence on page 15 be removed?

**Mrs Sullivan:** We had no information before the committee relating to that, and I would think that what should be included is that the Ontario Federation of Agriculture has recommended a program similar to OFFIRR for a one-year period and in fact they wanted particular targeting of that program.

**Mr B. Ward:** Then you are suggesting that be modified as well?

**Mrs Sullivan:** It has to be, yes. It is inaccurate the way it is here.

**Mr Rampersad:** The Minister of Agriculture and Food made a statement. He was quoted in the Windsor Star a few days ago as saying that the government is likely to implement a short one-year program similar to OFFIRR.

**Mr B. Ward:** But we never heard that.

**Mr Elston:** I do not think it really matters. If he said that and was quoted in the Windsor paper, make a note of it and throw it in.

**The Chair:** Just footnote it.

**Mr Elston:** If he has already said it, are we going to quibble over that?

**Mrs Sullivan:** Yes, but I think we have to underline that the recommendation was there for that kind of a program from the OFA. That was certainly a major part of their recommendations to us.

**Mr Elston:** You can put, "and by newspaper reports, it appears the minister will recommend that," or something.

**Mrs Sullivan:** Yes, I think that would be fine.

**The Chair:** Just footnote it. The thing is footnote, right? Footnote your sources.

**Mr Rampersad:** If you want footnotes, we can give you about 100 pages. I can give you footnotes on every statement.

**The Chair:** Are we comfortable with those two paragraphs now? Are we comfortable with the second paragraph on page 15? Are we happy? Can we move on to "Social Issues"?

**Mr Elston:** I wonder, just before we do move, because the food processing industry itself is critical to the other half of that—I mean you can provide a lot of support for the first part of our presentation, but without the second part you certainly erode the need for the farming community here. The processors move to the US and access product from there. I wonder if we maybe should not do something to underscore the negative effect that it has on a number of communities when these operations actually cease.

Somehow my concern in my 10 years here has been that the trend has been to kind of shove agriculture off to one corner, isolate it and say, "Ain't it too bad, but it really doesn't affect us that much," without understanding the effect that there is from a social point of view on whole communities, for instance, in Essex-Kent, and even in the peninsula, of course, Simcoe county.

For me it needs to be fleshed out a wee bit that there is a significant community problem associated with the loss of this industry. It is not like you just are not producing

ketchup in Leamington any more. There is more to it. I wish that we could integrate agriculture back into the mainstream of consideration, if I could. We did some stuff and worked on it, but it is difficult because it is easy to push it off when people do not think about stuff—

**The Chair:** Out of sight, out of mind.

**Mr Elston:** —like that being part of a production facility with real men and women working the lines.

**The Chair:** Yes. One of the problems that we are actually facing here is that we did not have any food processors to give us a presentation.

**Mr Elston:** Nobody came to talk to us. Can we then just make an observation that they were not represented?

**The Chair:** That is what my suggestion was going to be.

**Mr Elston:** Okay, that is fine. I am sorry.

**The Chair:** But we should make a comment that we are sorry that we did not have this information available.

**Mr Elston:** I do not want to attribute blame for anybody not appearing, but perhaps we should have expressed the wish that we had been able to more fully examine the implications of a downturn in food processing in Ontario. I just think it is too important to skip by.

**The Chair:** I think there is probably general concurrence on that.

**Mr Jamison:** I think it is a major consideration. We may not have had any presenters on that, but I do not think there is anyone in this room who does not realize that the processing industry itself is in serious decline in Ontario. Restructuring again, all the issues that we talked and talked about prior to and the effect on rural communities and as far as employment is concerned, is dramatic. I would like to make specific reference to that part of the industry, being directly related to agriculture, and how it affects the ability of the farmer or the grower to really market his product. Maybe it will grow just as well, but if the processor is not there, it is kind of a fruitless effort.

**Mr Hansen:** One thing is that it is lowering farm income even to farmers who are winding up—let's say, growing peaches. There is not that canning crop left because that was always extra money that they got depending on the price of peaches, or let's say apples, or whatever the case may be. It has limited farm income quite a bit on the second-grade canning level, so it has been very costly in our area.

**Mr Elston:** Perhaps, Mr Chairman, if we need some quotable quotes, I am prepared to become a witness and put in front of the committee a few lines if you want us to include quotable quotes.

**The Chair:** Maybe the committee could handle it this way, we could put in this paragraph indicating that there is evidence that there is restructuring in the food processing and a great deal of concern in that this is one of the issues that we did not have enough representation on.

**Mr Elston:** You might still refer it to the attention of the Treasurer. Maybe in one of our recommendations or

observations we could do that. Maybe I am skipping ahead of myself, but at least as long as we note it so that we not look like we totally neglected that side of it.

**The Chair:** We might be able to get a consensus or recommendation in that area.

**Mr Christopherson:** That is in line with what Mr Phillips mentioned before regarding public transit, where there was very little mention of, pulp and paper, mining environment and police. He suggested and we support the idea that we might find a means of incorporating that into the report so that it was not left out, even though we did not get a substantial amount of presentations on that. I think this is just akin with that and is an excellent idea that does not distort our findings and our recommendations to the Treasurer.

**The Chair:** If I read you correctly then—you can correct me if I am wrong—what you are saying is that we should indicate to the Treasurer that we did not get deputations in this area, but these are still important areas to be considered. "Social Issues."

**Mr Christopherson:** Before we start on "Social Issues," could I suggest that we look at breaking because that is going to take a fair while, I suspect, and it is a few minutes before the lunch hour.

**The Chair:** I am putty in your hands, if it is the will of the committee.

**Mr Christopherson:** Let me push my luck then and confirm that it is 2 o'clock that we are returning, Mr Chair?

**The Chair:** Yes, it is. I would like to nail down the break time for this afternoon at this point as well. What would be the break time? From 2 to 4, or 3:45?

**Mr Christopherson:** I think what we may want to do is leave it flexible only to the extent that we do have a limitation. We have Thursday and it all has to be done by then. If we get bogged down this afternoon and lose two hours, we may regret having set a time. I do not mind setting a target, but I would not want to set the adjournment time now. We may need it. We may want it this afternoon. It is either that or the possibility of starting who knows when Thursday morning or staying till who knows when Wednesday night, which would probably louse up agendas much more than staying until 5 or so tonight, so we had to.

**Mrs Sullivan:** Will we have proposals from you on your recommendations? Did you not say you were going to bring some?

**Mr Christopherson:** Yes, we have some. If we go through the report and we are prepared to start to look at some, yes, we are in that position. If you are in a position to respond to some of them, then we can focus on those. We are going to caucus again.

**The Chair:** I declare this meeting adjourned until 2 o'clock.

The committee recessed at 1154.



## AFTERNOON SITTING

The committee resumed at 1407 in committee room 2.

**The Chair:** I guess we are ready to begin the afternoon session. We are on page 15, looking at "Income Adequacy" under "Social Issues."

**Mr Christopherson:** I have a couple of points. This is another area where we would ask the researchers if they could contribute some of the comments, again for clarity's sake. I will leave that as an overall request for this section and for the balance, quite frankly.

I would also mention to our colleagues from the other two parties that in line with Mr Phillips's suggestion of "Other Matters," we would like to also suggest that we have a subheading under "Social Issues" of "Poverty" and another one under "The Disabled Community." Further—I do not think this will come under "Social Issues," although maybe—another heading we would like to have considered "Native Issues," in light of the submission received and the importance of it in today's context.

Those are our comments vis-à-vis "Social Issues," the rest part.

**Ms Anderson:** May I ask how you would see the "Poverty" section differing from "Income Adequacy"?

**Mr Phillips:** That is a good question.

**Mr Christopherson:** Yes, it is a really good question. It is an issue that sort of came up, and I think we now know which side was right in the internal discussion. I will not to gloat.

**Mr Elston:** You should not have to try too hard.

**Mr Christopherson:** Maybe a title change, and if there are any other aspects of the submissions that could be put in. Obviously, without being overly technical, we could like to beef that up a little if we could.

**Mr Elston:** More tactics?

**Mr Christopherson:** What did you have for lunch, Murray? Where have you been? You come back after lunch and you are all wound up. You are very troublesome and mischief-making.

**The Chair:** Murray went down and spent some time with the people in the tents.

**Mr Phillips:** The last sentence on page 15, "A whole package of welfare reforms, including" etc—I wonder if there is not a better way of saying that. It seemed to me that there was a consistency in the groups that suggested the continuation of the implementation of the Social Assistance Review Committee report. Somebody from outside adding this would wonder if this is not kind of a whole new idea suddenly coming at us, while it seemed to me that almost all three parties were of a mind on SARC. That is a theme I got out of the various groups that came before us, that they were suggesting we continue with the implementation of SARC.

I wonder if saying that is not a better way than that sentence, "A whole package of welfare reforms," just nothing along the lines that there seemed to be a consistency in the presentations recommending the continuation of the implementation of the SARC report.

**Mr Stockwell:** We are firmly behind you on that.

**Mr Elston:** Yes, quite a long way behind us.

**The Chair:** It is going to be a long afternoon.

**Mr Stockwell:** Why do we not just kick Murray out right now?

**Mr Elston:** I was told the morning session was much too staid and too formal. I just wanted to add a little life to it.

**The Chair:** What you are trying to do is get more oxygen to the brain cells, is that it?

Do we have any questions or comments on Mr Phillips's recommendation that this section be rewritten to reflect more of what the groups were saying about SARC?

**Mr Phillips:** Just the final sentence. It kind of looks as if there was a smorgasbord of ideas coming at us, with no consistency, whereas I felt there was a consistency, which said there had been a big study done on reform of the social programs in Ontario, called the SARC report, and there seemed to be consensus around the continuation of the implementation of it, I thought.

**Mr Christopherson:** We would not have a problem with taking a look at a redraft on that.

**Mrs Sullivan:** In the same paragraph: I think the implication in this paragraph is that people who have inadequate income to meet requirements of living are all unemployed, and there was some consistency in documentation that came before us about the working poor and people who have reached a point, either through the supports to employment program or going back to work, where other tangible needs have to be addressed, including child care, part of which is covered, but also including a continuation of some social assistance benefits.

I do not think that is reflected in here at all. It came in a number of the presentations before us. Perhaps the research people and the drafters could just shape it to indicate that the poverty issue is not one that is only for the unemployed.

**The Chair:** That we are talking about the working poor as well.

**Ms M. Ward:** Some of those concerns you are mentioning, are they not addressed in the first paragraph on page 16?

**Mrs Sullivan:** I do not think adequately.

**The Chair:** That one representation really went through a whole lot of things that presented roadblocks of a systemic nature as opposed to a straight welfare payment nature, and those systemic things could be included. Is that what you are asking for?

**Mrs Sullivan:** Plus the dollars as well. It follows right along in terms of social assistance. But some of the other issues I think were a very clear part. There was one that was a particularly dramatic presentation, but it was included in several presentations.

**The Chair:** We have the recommendation to have a couple of the headings changed and that section broadened to reflect those comments you just made. Are there any

other changes to that section on "Social Issues"? Can we go on to "Housing," then?

**Mr Elston:** I just want to make another observation about the construction of the report, if I may, before we go any further. It has nothing to do with the things you did not hear or the things you did hear, but just a juxtaposition of the "Agriculture" section prior to this, as though it were more business as usual prior to getting into the real social issues of the time, if you know what I mean. There are social assets to this agricultural thing, where you can see the demise of a whole community lifestyle or series of communities in our province. I do not like the idea of saying this is a social issue, income adequacy for people in a different part of the province, while the rest of this is somehow business as usual.

Perhaps there was not an idea that you wanted to segregate this into an agricultural-business type of stuff, and then "Income Adequacy" or "Poverty," which are more seen to be items of an urban nature, but which, from my point of view, afflict rural Ontario as deeply or probably even more so as we go through more restructuring.

I find it difficult to isolate the agriculture question from the "Social Issues" section, if you know what I mean. You have a few paragraphs here and there are some more things to be brought forward, I understand that. But it is a whole social calamity that we are about to deal with in the agricultural sector. I do not know how you fix it, but I think it has to be remarked upon so that people do not believe there is not some sort of social element we are going to be wrestling with over the next few years.

**The Chair:** Can I maybe offer a suggestion here? Under the table of contents, agriculture does have its own heading. When we get the sections back on agriculture, if they do not deal adequately with the point of view that you are expressing, then maybe we could look at it at that time and beef it up.

I sense that there is a great deal of sympathy cross-party here for what you are saying.

**Mr Jamison:** Just a clarification: My understanding of what you are saying, Murray, is that because farm incomes have dropped so much, there is usually a secondary income on a great number of farms, and with the recession that income disappears and the impact or the poverty that exists at that point is to try to keep that viable.

**Mr Elston:** Mine is a more basic concern even than that, because when you deal with agriculture in Ontario, there is not only a financial or fiscal framework, which is what we talked about, basically, in this prior section, but there is a whole cultural and then social side about which we say nothing. What we have basically said is, "Okay, the agricultural thing is all fiscal," or at least it could be read this way, that it is all fiscal, and then we go on to what we determine to be "Social Issues."

There is nothing more social-issue oriented than the demise of several small communities all around rural Ontario. The dislocation and family problems that develop as a result of that certainly are as big a concern from a social-issue standpoint as from the fiscal, which we really isolated ourselves on during this report.

It is an old bias that I have had for some time. I just not like the idea of thinking that we can deal with agriculture by throwing a few more dollars after a farm support program, and not deal with a whole series of other social issues which are equally affecting rural and urban Ontario. It is a much broader one than you were identifying.

**Mr Christopherson:** Mr Chair, I think you were correct when you acknowledged that there was a fair bit of cross-party support. Earlier, Mr Elston referred to the fact that agriculture historically has not been considered part of the manufacturing system, that it has always been something separate, and now raises the issue of social services not tying into it and the cultural aspect of agriculture, and I think there is a fair bit of agreement on our side with that.

You have said that in the redrafting of "Agriculture," it is not there—and I suspect if we do not give direction it will not be. I would suggest that we are very supportive of asking the researchers to include those, for lack of a better term, linking sentences, linking paragraphs that will at least acknowledge that we see those connections and we would like to see those connections worked on and some attention paid to them.

**Mr Elston:** Perhaps in the preamble or introduction we could acknowledge that while there are various sections that isolate particular topics of interest, we recognize crossover features, and perhaps highlight agriculture as one where, although we may focus on fiscal matters or financial matters, there are cultural and social problems to a pretty great degree which must be met relatively quickly if we are going to sustain several of our communities. I guess we around here represent a good number of those small communities.

1420

**Mr Christopherson:** Without getting into timetable at this stage, because that may indeed be part of observations and recommendations and some departure points for us, I think we can agree on the importance of it and the linkages. The researchers should feel comfortable that we are asking that those concepts be incorporated into the draft.

**The Chair:** We can come back and deal with this more when we have the next draft of this.

"Housing." Is everybody okay?

"Immigrants."

**Mr Christopherson:** We are fine on all of page 17.

**Mr Stockwell:** I have a question on paragraph 2, page 17, on the immigrants. Are we trying to relate the group that came in, are we going to put in brackets or whatever which group said this, attribute certain sections in here? I was curious which agencies came forward that said it was "a cost-effective way of integrating immigrants into the community," and finally, "the funds available from the federal and provincial governments have been insufficient." I would just like to see who made those deputations, because I think we are taking it here as a fact. I am not saying it is not a fact, but I do not know it to be a fact or not to be a fact.



**The Chair:** "Women's Interval and Transition Houses."

**Mrs Sullivan:** The second last line: After "provide" I would put "increased." I would also add "second-stage housing."

**The Chair:** So you want to have "to provide increased services to abused women and their children." And you would also like an additional comment here about second-stage housing.

**Mrs Sullivan:** Yes.

**Mr Christopherson:** Second-stage housing goes here?

**The Chair:** Right after that.

**Mrs Sullivan:** At the end, as one of the—

**Mr Christopherson:** "Additional staffing, pay equity and second-stage housing"?

**Mrs Sullivan:** Fine.

**Mr Christopherson:** We are okay on that.

**The Chair:** "Health."

**Mr Christopherson:** We are comfortable with what is here. We would like to see some additions. What we would like to do is offer to the researchers some direction.

The first one is on emphasis, a paragraph or two on the importance of the management of the health care system vis-à-vis the costs, the dollars, that this is something that needs to be focused on.

Second, we would like to see also an expansion on the community care issue. There is some here. We would like to see more, if we could, taken from the submissions that were made, with a particular look at the question of the analysis of costs. We did not look at the research material, but we suspect an acknowledgement that there still needs to be further analysis of what those costs are. Are the cost savings as great as some people think? Is it going to be revenue neutral? Will it cost more? Where are we in that termination, and should this apply to all sectors? Is it automatic that community care is the best way to go in all cases? Just something on that. Then lastly—

**The Chair:** Just a minute. Are you asking there for maybe whatever information is available on specific sector analysis? Just what exactly are you looking for there?

**Mr Jamison:** We are not looking at the picture overall, as far as communities are concerned. We are looking at the effectiveness of what services would be more cost-effective at the community level, more available, the availability of those kinds of things. We are just saying a closer scrutiny. The whole theme is how we can better administer the health care system in the province and better—maybe not administer, but fund and really track the funding. As far as community-based services are concerned, are we asking about the overall availability of service? Should we break those down and see which would be more effectively community based?

**Ms M. Ward:** I just wanted to add that our reason for the request was the sentence there, "Community-based care might lead to reduced costs over the medium term." The medium term is something that is not very self-explanatory,

and also the word "might" leaves some questions and we would like any explanations or further detail that we could get about that.

**Mr Christopherson:** There may indeed be a need, objectively speaking, for a reference to the fact that those potential cost savings have not been determined. If you recall, I asked those questions of at least one of the delegations and it does seem as if it is unclear. Originally there were great savings in community care. Then there was the suggestion it was fairly even, and now there is some suggestion it may cost more. All we are looking for is, in the submissions, was there a clear position, or should we be saying that has not yet been determined and perhaps that is something that needs to be identified?

**Mr Stockwell:** I do not think there are any savings at all, and even leading them down the garden path that there might be savings is misleading. I would just as soon just strike it.

**Mr Christopherson:** But that is the difference. There are those groups that still maintain that there are significant savings to be made. This is where Mr Jamison is saying in certain areas there may be greater savings than others in terms of institutional care and other health care that can be provided at the community level. We are just saying it has not yet been determined.

**Mr Stockwell:** It sounds like an observation or a conclusion, recommendation.

**The Chair:** We are just a little out of order here.

**Mr Stockwell:** Sorry.

**The Chair:** Mrs Sullivan was next.

**Mrs Sullivan:** I had a couple of comments, one of them relating to the three areas on management vis-à-vis costs. Mr Christopherson has asked for an additional paragraph relating to that. It seems to me that there are a number of management questions that come up, including capping services and so on, that I would not want to see included in an introductory paragraph. If his party wants to bring forward recommendations relating to management, then so be it.

Similarly, if you go back through the whole move from deinstitutionalization, a major rationale for that move was not cost-saving, nor has it been anticipated that there would be a lesser portion of the provincial budget dedicated to health care. It was the delivery that was being changed. If you want to ask, for instance, for a cost analysis of a change in approach, that should be your recommendation, unless I am hearing you totally incorrectly.

1430

**Mr Christopherson:** Let me respond in the hope of clarifying, and I remain open to comments back, of course. We are looking at this in the same vein that your colleague Mr Elston suggested, that if something really was said and it is relevant, then we ought to say it in here. We are not trying to make an observation or a recommendation from something that was not there, or if we are, we will state that very clearly. We are asking the researchers only to look where management of the system was referenced. To our recollection—and again, we did not go through the

submissions—I acknowledge that in our discussions. We are asking the researchers if they would do that for us and where there was reference made—and we believe there was—then we would like to see something on that.

The other thing with the example of deinstitutionalization, first of all, I do not know that I agree with what was said, because I know a fair bit about that issue. But second, we are not looking again to have any kind of work done in terms of direction. We will make those recommendations in the appropriate place. But what we do want is the basis in this report. We see it as a big issue and all we want to do is ask at this stage that anything that was said about that issue be reflected in the report and attributed.

**Mr Phillips:** On community-based care, if I am not mistaken, it is kind of the cornerstone of the health direction that the new government wants to take. I think that Operation Critical—I think that was the big health report—called for the doubling of community-based spending by the new government. So as I say, I think that is the direction it is heading. I am not sure what wording we are looking at here, but I think the future is being based on that.

My question was back in the top paragraph. I would like the researchers just to check the numbers on the per cent on hospitals and others. I believe the number that I am familiar with is that the hospitals are 46% of the health budget and I would just like to make sure those numbers are correct.

**The Chair:** Do you have any source of those numbers?

**Mr Phillips:** The ministry's estimates are one source and the minister's annual report is the other; just different numbers than I recall.

**The Chair:** While they are looking for that, are there any other questions or suggestions for the health section?

**Mr Christopherson:** There is one more from our position. We would like to see an expansion on the presentation that the nurses made and would just leave the request at that and ask the researchers perhaps to do a paragraph on that presentation. That is page 18 for us.

**The Chair:** Are there any other considerations or things that we should be considering putting into this part of the brief? If I do not see any hands, then I assume that we can now give direction to the—

**Mr Sutherland:** Sorry. Just on that, we are making reference at the beginning of this report about the issues that Mr Phillips brought up and the ones that Mr Christopherson added. Even though we did not receive presentations, there is something to the effect that they are still relevant and important and need to be addressed. Or are we just coming through with specific recommendations on those areas later? Was that the direction you were looking at?

**The Chair:** You are looking for an indication in some preamble, are you not, about mining, natural resources, policing?

**Mr Sutherland:** Yes.

**Ms Anderson:** Do you want to have that in an introduction to the whole report?

**Mr Sutherland:** If it is referenced to the fact that the committee felt that there were issues, even though they were not addressed.

**Mr Christopherson:** Yes. Again, we would remain open to hear how big a problem that is for you. We agree with the suggestion by Mr Phillips that some of the things should be included. In fact, we added a couple of our own. My colleague Mr Sutherland is suggesting that perhaps we may be able to show that in the report through a separate section acknowledging areas where we may not have had a lot of submissions, indeed maybe none, but we think there ought to be at least a reference to those things in this report. It just ties in with what Mr Phillips and the caucus felt was important.

**Mr Stockwell:** What do you want them to write?

**Mr Christopherson:** That is why I couched it by saying I know it could be problematic for the researchers.

**Mr Sutherland:** I think if you go back and look at some of the past reports—in fact, I thought I had seen in a couple of the ones from either two years ago—they referenced them and just make note of—

**Ms Anderson:** Sometimes they have had a paragraph or two, just a heading called “Pre-budget Consultation Process,” and the committee has talked about it is sorry it has not heard from certain sectors and it is sorry it has not heard from people outside Toronto and things like that. That is just a whole separate section, a sort of preamble at the beginning of the whole report.

**Mr Christopherson:** If you could give us your best shot as to how that might be covered and we will take a look at how far that goes to meeting the needs that have been expressed by both parties.

**Mr Phillips:** Just a couple of other things. One is that there were a number of information requests through the process that we had. I can recall asking the Treasury people the very first day for some information around the implications of borrowing and what kind of premium we would pay as a result of no longer borrowing from the teachers' pension. They indicated that they would get back to us. I think my colleague Mrs Sullivan also had a number of requests as well and I am wondering when we are expecting those answers.

**The Chair:** I had not heard back. I will have Mr Decker run that down.

**Mr Phillips:** I guess the other observation I would make is the challenge we are going to have. I think we have a lot of the prognosis on the spending side here, but one of our challenges is just the revenue side. I know the Treasurer says that it is too unpredictable to predict, but I think that is going to be a challenge for us as we work our way through this thing here. I am not sure how we work our way out of it, but I think it is going to be challenging to give the advice he is looking for, because I think virtually all of these things are on the expenditure side and very few of them are on the revenue side. I just make that observation. I do not know how the final report will look, but this is to be in.



**Mr Christopherson:** If I could just follow up on that, Mr Chair, I am curious and I ask in total innocence—I know that you do not buy that, Murray—how normally is that sort of thing reflected in a report like this? That is why you make recommendations saying that the government should do this or it is requested to do that. Understanding that the final decisions are left in the hands of the cabinet on the budget, how normally would revenue issues be in a report like this? Are one of the two opposition parties proposing new taxes to generate revenue?

**Mr Phillips:** No, but your Treasurer has given us the economic forecast. He has in place all of his taxes. I guess we had half-expected him to say, "If the economy unfolds as we estimate it will and there are no new taxes, this is what we will have to work with on the revenue side," because he is asking for advice on the expenditure side from people who are giving us advice in a series of specific areas. But I am quite disappointed that we do not have some feeling of what we are looking at on the revenue side.

**Mr Christopherson:** If I might, I do not think anybody needs a crystal ball to confirm the fact that we are looking at a deficit in fiscal 1991-92, so the real question for us is, how much of a deficit are we looking at? What priorities are such that we feel they should be given consideration, not regardless of the deficit but in spite of the fact that there is a deficit? Or as in the case of Mr Stockwell, are there going to be recommendations in perhaps the opposite direction, that you should not make any expenditures when there is going to be a deficit?

**Mr Phillips:** But the crystal ball on the deficit has to be revenue minus expenditures. Presumably the only way you know the deficit is by subtracting one from the other. You are very close to the Treasurer, you talk to him on an hourly basis. What revenue might he be looking at?

**Mr Stockwell:** I agree with Mr Phillips. I think it is a joke to try to go through this, make a sandwich with one piece of bread. There is no question, if you are going to do a serious review of the budget, if you are going to prepare a budget and you are going to analyse recommendations, it is absolutely absurd to suggest you can do it without the revenue projections. Now, I know you are the open and accessible and free-thinking group that you thought you were when you got elected, but even those backroom Liberals last term, last year, supplied this committee with preliminary revenue projections. They did it. I cannot understand why—

Interjection.

**Mr Stockwell:** Just look for them. I found them.

I cannot understand why you cannot give us preliminary projections. Mr Chairman, I suggest we send a strongly worded message to the Treasurer saying:

"I know you have them. You are telling us you are going to have a bigger deficit next year than the year before. You must have some kind of revenue projections to say just that. If you want some serious recommendations that can be made to the Treasurer in the sense of working together, you have to give us some kind of idea what the revenues are going to be."

We are going to go through this whole charade, and no one will know what to recommend because we do not know how big the deficit will be. We do not know what your projections for revenue will be. We do not know where we can see growth and where we are not going to see growth, and we will sit around here navel-gazing.

I would prefer right now that this committee go on record unanimously requesting the Treasurer to supply this committee with what I consider to be a very reasonable request, preliminary revenue projections. The Liberals did it. The open, accessible, upfront and frontier-thinking NDP, I am certain, can do the same as the Liberals did last time.

**Mr Jamison:** That is an awkward thing to do, basically on this basis, that the Treasurer told us, informed us of a windfall of some \$900 and some odd million that came back from the federal government that really he had no ability to account. That is a substantial amount of money. I do not believe he can do that within the accuracy Mr Stockwell is talking about.

**Mr Elston:** Along that line the whole point of budgeting is that they do that. In fact they not only do that once a year in preparation for a budget, but they do that on a monthly basis so that they can figure out whether or not their revenues are living up to what the projections are. In fact the whole process starts—at least, it did when we were over there—by about August or September when the preliminary estimates are made for the whole year on the basis of revenues and the strength or weakness of the economy.

Treasury has a whole unit that does nothing but, or at least has a number of people who do nothing but speculate on the future earning ability of the revenue sources for the Treasurer. That likewise is done through the people at the Ministry of Revenue who are charged with keeping the Treasury people informed so that they can make in-year course adjustments if that is necessary. So even though there is this \$900 million that comes up because of some kind of reconciliation of personal income tax accounts and other things from the federal authorities, that should not stop us from asking for those revenue sources.

I might also indicate, by the way, that I would like to express some concern, because what we are seeing this year is similar to what we saw at one point when Larry Grossman was Treasurer. We have had floated out in the public now, at least from two sources that I have seen, the incredible numbers of \$6 billion—I had heard originally—to \$9 billion in deficit. I see in the *Globe and Mail* this morning that the number has shrunk from \$6 billion to \$8 billion in terms of deficit, with the idea being that the bad, bad tough message is going out there, "Ain't it going to be just awful," and then some smaller number may arrive as the deficit figure.

I believe that at this stage in our fiscal year, and in preparation for the budget which will be brought in, I guess, in May or April, Floyd has already, with his colleagues at Treasury, recommended to the Premier, and in fact the policy and priorities board of cabinet or whatever it is called now has already determined, what the target

deficit number will be. Unless you start with that target number, then you cannot possibly start to clarify where you are going to move with all of the other decisions around which we are being asked to make recommendations.

Even as we sit here, Floyd Laughren and the Treasury department have already told the Premier, his advisers and the policy and priorities group in cabinet, exactly what their best guess is with respect to revenue and what their best guess is in terms of consumption of dollars on the expenditure side.

For us to ask for a little bit of guidance—we are not asking to the last penny—if he cannot provide us with some kind of guidance, he is not telling us everything they are doing. So I think we should be able to have some of that. I like the idea that this be shared with us to help us, because to be quite honest this whole process is not going to be very helpful if we try to go in and say, “There are a lot areas you should address,” and then he says, “By the way, we’ve decided to balance the budget this year, so we’re going to actually cut back expenditures.”

I cannot imagine him doing that, but it is a scenario that is possible. Until we know, how do we know what our recommendations ought to be so that we do not look like a bunch of goofballs?

**Mr Christopherson:** I do not think there is any guarantee that we will not look like a bunch of goofballs. I do not think anybody can provide that guarantee. But let me say this, we are now two days from completion of this committee’s work. The Treasurer was just here, as Mr Jamison has said, less than four working days ago and all of these questions were put to him by, I guess it would have been your predecessor on the committee last week, Mr Stockwell. Mr Sterling and everybody had their run at the Treasurer in terms of asking him for information and hearing his answers, not us carrying his message. You heard at first hand his answers to those questions and to those requests. You got the answers. They are there in Hansard to be seen, and obviously we are not going to be comfortable at this stage of the game with suddenly sending off a message from this committee demanding this, that or the other thing when indeed he was just here to answer those questions.

I think it is a bit of a red herring to raise at this point. The time to do it was when the Treasurer was here. We said very little. If you check Hansard, you will see that we did not take up a lot of the time. We made sure that the opposition members had 95% of the time available for access to the Treasurer. You asked your questions. You got the answers as best you are going to get from him. Whether that is satisfactory or complete or not is up to you, but you got his answers. I think that has answered those questions for the deliberations of this committee, for the duration of this committee sitting. We are not prepared, obviously, to play any kind of games at all, at all, at all.

**Mr Elston:** I am sorry; I was not playing games. I just told you about the process.

**The Chair:** Let him finish. Then we have three other people.

**Mr Christopherson:** We are not prepared to play a kind of games at all about sending letters to the Treasurer demanding, when indeed he has just been here. If he had not been here or had refused or if this was while he was still sitting there, actions taking place—now a number of working days have gone by and it has not been raised, and I have some real concerns about the legitimacy of the sincerity in asking these kinds of questions and making these kinds of requests.

**Mr Phillips:** There is actually nothing new.

**Mr Stockwell:** On a point of order, Mr Chair: There are questions of the speaker or do you go to the next speaker under this process?

**The Chair:** We go to the next speaker.

**Mr Stockwell:** Okay.

**Mr Phillips:** Do you want to ask the speaker a question?

**Mr Stockwell:** Yes, I did, but it is okay. Go ahead.

**Mr Phillips:** I think we have been trying from the outset to find some revenue estimates. I think you all know about the \$2.5-billion deficit. I have predicted from the outset that revenues would be higher. The federal government publishes its numbers all the time. It is no secret that they already have their third-quarter numbers out. It is not a windfall. It is, in my opinion, a predictable number. I said that three months ago and indeed it has come true.

All I am saying is that in the end it is going to be difficult for us. I think, by your own admission, you said “It doesn’t take a crystal ball to know there is a deficit.” The only way you can get to a deficit, I repeat, is you subtract the revenue from the expenditures. We are going to be talking about expenditures as—that is not a bad expression; I may use it—one slice of the sandwich. That is all I am saying. It is going to be difficult for us. I realize the Treasurer is saying he does not want to give us the numbers, although I agree with my colleague that every single ministry already is working on next year’s budget. There is zero question about that. They have been given their direction and there has been a target expenditure estimate set.

We will proceed with this. We have no authority to demand the revenue numbers, or at least, we will not get the revenue numbers. It just makes it difficult. I do not imagine you at the Hamilton city council or regional council ever went through an exercise without having some idea of what your revenue is going to be.

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**Mrs Sullivan:** Certainly I am very familiar with the process relating to budget determinations and concur with my colleague that in fact those decisions have been made. The Treasurer indicated that he was not going to share them with us. They certainly would have been discussed around the table with Treasury officials and targets would have been set. We have had some indication, through announcements, of what the pressures on the expenditure side of the budget will be, and without an indication of what the range of targets is, in the absence of specific decisions that the Treasurer will have to hold unto himself until the final week or whenever the budget deadline is—



ally the week prior is when the final locked-in decision made—there are targets.

We would like to know what the Treasurer's targets are and how he sees the elements changing. The previous Treasurer shared that information with the committee and indicated that within a targeted area, the target over a period of time was to reduce the budget to a balanced situation, and he did so and he indicated that he wanted to operate in the 1990 budget end at a balanced situation, even no changes in economic scenarios.

If, for example, the Treasurer is looking to increase a budget deficit and sees a validity in making changes that increase the budget deficit for the next year within a targeted framework, then it is valid that we can look at one of the recommendations that have been brought before us and say, "Indeed, within the context of recovery and deflation, these are recommendations that make sense for the Treasurer to include in that budget." We do not have to follow the Treasurer's plans. This is an independent committee, but within that budget-setting scenario it is useful for us and in fact important to us to at least have a framework on which his decisions are going to be made.

I speak in support. We have certainly had indications in announcements of pressures on the expenditure side. The pressures on the revenue side are very important to us. This committee is going to have any sense of validity.

**The Chair:** I just interject at this point. I have been informed that in fact what you are asking for is for the 1991-92 budget year. Is that correct, that you want those figures?

**Mrs Sullivan:** That is why we are sitting here.

**The Chair:** And that in fact those numbers have not been given to previous finance committees.

**Mrs Sullivan:** At least the targeted range was, at least in the direction of the budget was.

**Mr Stockwell:** Who told you that, Mr Chairman? Last time the Liberals provided the range, the parameters they were going to use.

**Interjection:** Where is that? Could I just have where that was referenced in the report?

**Mr Stockwell:** I have got it downstairs. I am not sure where the book—I picked it out and there it was; those numbers were in there.

**The Chair:** I will pursue this from the point of view of finding out exactly the correct interpretation of this information and will report back to you at the next meeting tomorrow morning. Did you want to make a comment?

**Mr Stockwell:** I have one last comment. I take great exception to the comments made by a government member with respect to the legitimacy of the request. I think there is great legitimacy to the request. I think, if you are going to look at a budget, you need both sides of the equation, and for you to sit there and suggest that this is politically motivated by some stretch, that we are in fact going to embarrass the government or, I do not know, that the beans on the budget, is absolutely insane and I take great exception to that comment.

You are the open and accessible government. You are the people who were going to give us all this openness and fair play. It is clear the only time it is open is if you are a member of the NDP. To suggest for a moment that requesting—get this, requesting—revenue projection parameters, guidelines, is in fact going to, as your Treasurer sat there and suggested, outline the 1991-92 fiscal budget, is a joke, an absolute joke.

For us to sit here going through this charade—what do we have here? We have got throne speech 2. We are talking about whether partnership should go before answers. That is how in-depth we are getting into this budget discussion. I take exception to your comment that there is no legitimacy to it and it is politically motivated. Baloney. You sat on Hamilton council. Tell me one budget you ever did where you did not have revenue projections when you set your budget. Don't be so stupid.

**Mr B. Ward:** Mr Chairman, he should withdraw those last two words.

**The Chair:** The last part of your comment, sir, is not appropriate language.

**Mr Stockwell:** "Don't be so stupid?"

**The Chair:** Yes, it is not appropriate language.

**Mr Stockwell:** I am not implying that he is stupid. I withdraw that. But it certainly riles me when he is suggesting that there is no legitimacy to our request. That is unreasonable.

**The Chair:** I am going to exercise my powers of the Chair. We can rattle around this debate for the rest of the day and, if that is what the committee wishes to do, that is fine. I will bend to the wishes of the committee. However, I would suggest that at this time we have exactly two days and somewhat to consider our recommendations and I think we can do some good work between now and then, in the absence of these numbers which we may or may not get and which I would suggest at this time it is highly unlikely that we will get. I would like to proceed with the next part of this process and get on with the recommendations.

**Mr Christopherson:** At the risk of being overruled by you, and I stand by any ruling you make, I think I am entitled to at least state for clarification purposes that it is not the issue I am talking about, but the timing of it. These positions and arguments were put forward prior to the Treasurer's coming before the committee. That was the purpose in his coming before the committee. Those questions were put before him. That was last Wednesday at noon. This is now 3 o'clock in the afternoon of the following Tuesday. To suddenly raise this as a crisis issue, that we cannot continue without this information now, is why I am suggesting, in my opinion, that it is political in nature and not as legitimate as it is being put forward to be, not as if it was put at the time that the Treasurer was here. That is for the clarification.

**Mr Stockwell:** You are assuming the answers the Treasurer gave us are legitimate answers.

**The Chair:** I would like that to be the last word, Mr Stockwell, please. I would like to move along because we

have a lot of work to do yet and I am sure there is lots of time. Are we all ready to do some more work now? Okay, let us move to the next section, and that is to start considering the recommendations that will go into the report.

**Mr Elston:** I would just like to draw your attention, before you get on with the recommendations, Mr Chairman, that we did not go back to page 2 and some of the other pages that we were to have reports back from the NDP caucus on some of the variations to be considered. I think there were some lines on page 2, for instance, that I remember and a couple of others on those first three pages that you were going to chat about, I think.

**The Chair:** We have a revised version of the draft. Is it the wish of the committee to have it circulated now?

**Ms Anderson:** The first section.

**Mr Elston:** But does that also include the things that you were going to talk about?

**Mr Christopherson:** No.

**Mr Elston:** So we might as well hear what you have decided about some of those options.

**Mr Christopherson:** I can have those for tomorrow. I do not have them for this afternoon.

**Mr Elston:** Okay, fine.

**The Chair:** Where do we begin in this part of the process? I need some direction here.

**Mr Stockwell:** The government is going to supply us with its recommendations, I think, at this point.

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**The Chair:** If I remember correctly, we were all going to supply each other with all of our recommendations at this point. I think that would be useful in terms of being able to move through it quickly in terms of finding out where the consensus are. Who is going to go first?

**Mr Phillips:** I think our understanding was the government would lay out its recommendations.

**Mr Stockwell:** That is what I thought.

**Mr Phillips:** In the final analysis, if I add the numbers up, we might as well start with where we are going to end.

**Mr Stockwell:** You could even read into their recommendations too, probably, some of the revenue projections and maybe adjust ours.

**Mr Christopherson:** Please do that, Chris. I want you to stay up all night calculating that for me, please. We would appreciate that.

**Mr Stockwell:** Honestly, I thought the government was going to supply them first.

**Mr Christopherson:** Again, not having gone through this or anything like it here, since all of us are new, and if the other parties are not comfortable with this process, we are prepared to entertain another way of doing it. What we thought we would do this afternoon is present some of the recommendations that we feel were probably the least contentious, that had the best possibility for support.

We, like you I am sure, have looked at previous reports and liked the areas where unanimity was shown and thought that that really carried some weight. We had hoped

to find as much of that kind of ground as possible, so suggestion today was to run through a number of the issues, not in any particular order, mind you, because the report had not yet been finalized in terms of the headings and where the groupings might fall and we ran into a problem. If you just want to take a patchwork of recommendations that we think everybody is comfortable with, we think that might be a good way to start.

**Mr Phillips:** What about the title?

**Mr Christopherson:** "NDP Caucus Recommendations." Do you like that?

Interjections.

**Mr Christopherson:** Either not enough oil or not much, eh? All right. Again, I do not have a lot of rhyme or reason to them at this point, so here goes. As you can see, I am trying to couch this 16 ways from Sunday. "To enable disabled people to speak on their own behalf, enhanced funding should be provided to advocacy and self-help groups."

**Mrs Sullivan:** Is this in isolation or is it going to be with other recommendations? I do not think we can go that far with that sort of a sentence that sits there.

**The Chair:** It should go where it says "Committee Observations." Do we have any idea where we—

**Mr Christopherson:** Not at this point because I have not explained there is such a lack of preparedness just in terms of getting the process right. Our preference was to couch it and say, "Okay, at the end of this section where we have our observations and recommendations, here is what we are going to get as a package." Unfortunately, because the final draft is not done and we were all suggesting new headings, we do not know exactly where it would break down. So the best we have for you is just what I started to do: a whole host of recommendations. We have quite a number of them and they are like that. They kind of stand alone. They are not attached anywhere.

**Mr Elston:** So basically what you are going to do is—

**Mr Christopherson:** I mean, we can hold off—

**Mr Elston:** —if you wanted, you could actually go through this paper and just signify for our purposes whether your caucus had sort of provided your own endorsement and then we could think about the construction of the report tomorrow when we get our next draft. If you just want to enumerate them that way, that is fine, but otherwise the sections of recommendations and observations may not be too cogent, and it is very difficult to construct a report around those things if you are just going to sort of list them, well—

**The Chair:** There is a possibility, it appears, that if the committee was to go through these, the researchers can take them and plug them in where they—

**Interjection:** Well, I do not know about that.

**The Chair:** For example, I was just informed that on page 16 is where the report talks about handicapped, physically disabled, and you put in the committee's observations and recommendations.

**Mr Elston:** This is sort of bingo-card report-writing



**Mr Christopherson:** I think you will appreciate now why I was less than confident when I began reading them to you. I am really not comfortable. I would prefer, and I think we would, giving you a package in each—

**Mr Elston:** They are all leaving you, David.

**Mr Christopherson:** I think we would be more comfortable coming back to you and giving it to you in those package forms. We do not have it right now. We have done a number of the pieces but we are not ready to do that.

**The Chair:** Am I hearing that we should adjourn until tomorrow morning at 10 o'clock, at which point you will come back with the package?

**Mr Christopherson:** Yes. The only thing is, again, I do not tell you that we are going to be completely done, because we have not seen the draft yet. We do not know how many headings there are and where they will fit.

**Ms Anderson:** The headings will be the same as the ones that are in the table of contents, plus the disabled community and native affairs.

**Mr Christopherson:** I do not want to make a commitment we cannot keep. Tomorrow afternoon?

**The Chair:** I think we should start in the morning.

**Interjection:** I do not think we will be in a position tomorrow morning.

**Mr Christopherson:** I am prepared to say at this point we should have at least a quarter of the recommendations to go through tomorrow morning, given that we have a few days to do this in.

**Mr Elston:** Mr Chair, just to help out here, we do not want to make anybody think we are going to hold you to giving the whole package available for tomorrow. I think we should meet tomorrow even if it is just brief. If we

find out that we cannot do it, we should come back here, take a look at the new draft and the material. You can give us what you have been able to put together and we can deal with that, and as soon as we cannot do anything more, we will take a break and work at it some more. We are not asking you to come up and do the impossible; just best efforts is fine.

**Mr Christopherson:** Nuts and bolts and honesty. We are not scheduled to meet again till tomorrow at noon, so in terms of taking the next step beyond what I have here—

**The Chair:** No. I would suggest then that this is found time, that you go do it now. If we are adjourning now, then this is found time. I suggest you go do it now.

**Mr Christopherson:** We have only got an hour, because we have got people who have a 4 o'clock commitment. The toughest thing has been finding time to caucus on these things, not that you need to hear our woes.

**The Chair:** Join the club.

**Mr B. Ward:** We will break and tomorrow morning we will do the best we can, right?

**Mr Christopherson:** Yes. How is that? We will come back and we will give you the best shot we have got.

**Mr Phillips:** I was hoping for a little more, but I guess that is all we have got.

**Mr Christopherson:** As we tell everybody else, do not judge us on what happens in the first six months; judge us at the end of the four years.

**Mrs Sullivan:** Six months? It feels like six years.

**The Chair:** I can assure you that is the way we felt about your first six months as well. Okay, tomorrow morning at 10 o'clock return.

The committee adjourned at 1509.

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 Sutherland, Kimble (Oxford NDP)  
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 Ward, Margery (Don Mills NDP)

**Substitution:** Elston, Murray J. (Bruce L) for Mr Kwinter

**Clerk:** Decker, Todd

**Staff:**

Anderson, Anne, Research Officer, Legislative Research Service  
 Rampersad, David, Research Officer, Legislative Research Service











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1st Session, 35th Parliament

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Standing committee on  
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Pre-budget consultations

Assemblée législative  
de l'Ontario

Première session, 35<sup>e</sup> législature

**Journal  
des débats  
(Hansard)**

Le mercredi 6 février 1991

Comité permanent des affaires  
économiques et financières

Consultations prébudgétaires

Chair: Jim Wiseman  
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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 6 February 1991

The committee met at 1012 in committee room 2.

### PRE-BUDGET CONSULTATIONS

**The Chair:** We are ready to begin the morning session. With reference to the inquiries about revenue projections for the coming year, the revenue projections that were available to the committee last year were found in what was called the grey book. They speculated on what revenue would be for this year as well. When I requested similar information from the Treasurer, he indicated that the grey book was not published; because of the expense, he decided not to publish it. However, I then pursued it and asked if there were numbers forthcoming on revenue projections and he indicated that is what they are currently working on and that they would attempt to try and put something together for us.

**Mr Elston:** That is also a big story. I know exactly what the process is in constructing a budget. I have been through several of them, and as much as some people here would like to say we maybe did not do as good a job as we could, I know damned well that those numbers are much better by this time of the year than what he has just told us. That is just one big pack of—

**The Chair:** You cannot use that word.

**Mr Elston:** —bumf. It is not true; it is just not true.

**The Chair:** I think that according to the—

**Mr Elston:** If he had said to you, "I don't want the committee to have them because I just don't want to release them," he would be accurate and he would not be dragging you out to dry, saying that story to us, but when he says you that, that they are just working on them, that is—

**The Chair:** I will tend to believe the Treasurer, given what is in our standing orders—

**Mr Elston:** You can believe him, but I will tell you, I am through five of those things and if he has not got a whole pile of those estimates, starting at least as early as August and coming forward and being refined—

**The Chair:** We do have the third-quarter figures.

**Mrs Sullivan:** We are talking about estimates for the next year.

**Mr Elston:** No, this is production of a budget for the next fiscal year. It is absolutely offensive.

**Mr Sutherland:** Mr Chairman, we got into this discussion yesterday about the request. The request has been forwarded. We have a response from the Treasurer.

**Mr Elston:** The response is a lie.

**The Chair:** Excuse me.

**Mr Elston:** That is the problem. If he had said, "I'm going to share them," he would be accurate.

**The Chair:** Mr Elston, that is unacceptable language.

**Mr Elston:** It is not unacceptable. It is true.

**The Chair:** It is unacceptable language within the rules of parliamentary procedure to use that kind of language.

**Mr Elston:** Listen, I will withdraw the word, but I will tell you, he has given you a string of stuff that is not true.

**Mr Sutherland:** Excuse me, Mr Chairman, did I not have the floor here?

**Mr Elston:** He asked me to withdraw. I am withdrawing and I am explaining the fact that you guys have been fed a bunch of crap to come and put on the public record here that just is not true. It is offensive. He should have said, "I don't want you guys to know," and then he would be accurate.

**The Chair:** The assumption made in parliamentary procedure is that what we are told is the—under the rules that has to be accepted.

**Mr Elston:** Listen, you guys are living two different lives, because I will tell you, we were faced on a daily basis in the Legislative Assembly with your leader calling Peterson a liar, with Floyd calling the Treasurer a liar and you went along with it.

**The Chair:** I find that—

**Mr Elston:** You got away with it and you do not like it when you guys have these stories now being brought back to tell you what in fact is taking place. Listen, it is not going to make a difference to our report because we cannot get the information, but it is not because it is not available. It is because he does not want to give it to us and I wish he would just say that. I am sorry; I will not say anything more.

**Mr Sutherland:** I was just going to say that I believe the members of the Liberal Party have stated their opinion on the issue and could we please move on to some of the business that we need to deal with.

**The Chair:** I would concur with that.

**Mr Sterling:** Mr Chairman, on your report from the Treasurer, I would like to ask a question. What is the expense that he is talking about here?

**The Chair:** Will you show me that book?

**Mr Sterling:** Is it printing that book you are talking about that is an excessive expense?

**The Chair:** Let me give you exactly what he indicated to me. It was that the amount of distribution the book achieved did not warrant the expense. It was a very, very limited distribution to a very few people who showed an interest in it and therefore they decided they would not publish it this year in order to—

**Mr Sterling:** Yesterday I sat in a committee. I went to the standing committee on the Legislative Assembly because I am interested in the freedom of information issue. The New Democratic Party, over the last 10 years, has said that people should not have to pay for the production of information, that there should not be any fee associated with that. How does he match up what the New Democratic Party has said over the past 10 years on the production of information for the general public, not a legislative committee, not a committee that is charged with trying to give him advice on the budget? How does he match up the production when he can photocopy the information for us?

**The Chair:** I think your question to me on that issue is irrelevant. If you have a question, I think you should direct the question—

**Mr Sterling:** His answer is a joke. I agree with the member, Mr Elston. We are supposed to take the Treasurer's word, but when it stretches his credibility to the extent where he says he cannot produce a 60-page report because it is too expensive, that is a joke.

**The Chair:** Excuse me, Mr Sterling, as Chairman of the committee I am merely relating the information to you that I received. If you have problems with the information, then I suggest you put it in writing to the Treasurer, who is more apt to give you the answers you are looking for.

**Mr Elston:** Ask him if it is too expensive for him to write back.

**The Chair:** To direct the comments to me that you are directing, I think they are out of order and I am going to rule them out of order and I am going to proceed with the hearings for this morning.

**Mr Sterling:** Why is it out of order?

**The Chair:** Because I have no place to answer the questions or to make comments on the comments that you are making, because I am not—

**Mr Stockwell:** It just makes you uninformed.

**Mr Sterling:** It is not out of order. We are in here to discuss the budget.

**The Chair:** Then I suggest we move along to that.

**Mr Sterling:** Are we not open to debate? Are things not open to debate?

**The Chair:** This is not a debate.

**Mr Sterling:** What are we doing here?

**The Chair:** This is not a debate on the pre-budget consultations.

**Mr Stockwell:** I think I was next, Mr Chairman.

**The Chair:** I hope you will refer your comments to the budget because we would like to get along to these pre-budgetary consultations.

**Mr Elston:** The budget includes revenue.

**Mr Stockwell:** That, I guess, is the difficulty. My point I made yesterday was very clear. It is very difficult to do a budget when all you get is the spending and you do not get the revenues. I was told they did not exist yesterday.

1020

**The Chair:** And that is exactly what you told me—

**Mr Stockwell:** Can you let me finish, Mr Chairman. Thank you. I was told they did not exist. Now, apparently something exists, and now I am told today something exists but it is too expensive to photocopy—

**The Chair:** No, that is not it.

**Mr Stockwell:** —because that is all I want, just copies, one for each of us. In fact, why do you not give per party and we will be charged with the responsibility of photocopying the information? I have no problem with that either.

I think what this committee should do, considering difficulty in making recommendations on budget items, request from the Treasury department or the Treasurer, we be supplied with a few copies of the information we have received and allow us to go back and photocopy information.

**The Chair:** That request in fact has been made and we have received word that they are in fact trying to put together the information you have asked for.

**Mr Stockwell:** That is great. Did they give you the time as to when they will have this together, since we can sit for another day?

**The Chair:** I have not received that information, no.

**Mr Stockwell:** Good. And the other thing is, when will they find it? Did they mention to you—

**The Chair:** They have not said they have found it. They said they are looking for it to pull it together.

**Mr Stockwell:** Oh, okay. Did in fact the previous government supply that information to the committee?

**Mr Elston:** That was the grey book.

**The Chair:** They were supplied in the grey book, if you wish to have a look at that, there are projections for this year in this book as well.

**Mr Stockwell:** But they are slightly outdated.

**The Chair:** They are slightly out of date.

**Mrs Sullivan:** Slight change in government, too.

**Mr Stockwell:** It is kind of interesting—open and accessible.

**Mr Jamison:** I think the comments from Christopherson yesterday concerning the presence of the Treasurer here last Wednesday—all of these questions should have been clarified certainly at the time; we were given at that point the time to do that. The questions were put to the Treasurer. The Treasurer answered those questions.

**Mrs Sullivan:** On a point of order, Mr Chairman: The questions were put and the answers were not provided.

**Mr Stockwell:** Accurate; exactly.

**Mr Jamison:** What has come forward is a concern about revenues. The Treasurer is trying, from my understanding of your comment, to put something together for the committee at this point.

**The Chair:** That is correct.



**Mr Jamison:** That is the information we have and I would say that we should continue on and go through some of the documents that have been given us this morning.

**The Chair:** Last comment, Mr Phillips.

**Mr Phillips:** My problem—I am trying to be fair on the thing—is that we are having a little bit of difficulty with credibility. I go back again to the document that the Treasurer had in October when he said, “Listen, we have a \$2.5-billion deficit and it is a result of a \$1-billion shortfall in revenue and a \$1.5-billion increase in expenditures.”

Then he predicted the corporate taxes were lower. This is the point I tried to raise with the Treasurer the other day. Published data from the feds said income tax is way up; not enough, as I predicted in the House. You people should be careful with this too, because one of the things that you are going to find is the Treasurer will say, “We cannot do the things that you want to do, caucus, because we have this terrible \$2.5-billion deficit left by the Liberals.”

It is a bit of a fabrication; I will be honest with you. The revenues, as I predicted, are not \$1 billion lower but \$600 million lower, in spite of the fact we are now, six months later, in the worst recession ever. The revenues are not down \$1 billion; they are down a maximum of \$600 million. But, lo and behold, expenditures are creeping up everywhere in the budget here.

I am just saying that the Treasurer's estimates are causing a lot of us a lot of concern. I will not say that we have difficulty with how they were arrived at. The \$2.5-billion deficit stays the same, but the composition is very different now. Actually Mr Stockwell was very specific with the Treasurer when he was here, and as Hansard will show, asking: How can we work? Where are the revenue estimates? Why can we not have them? The Treasurer, “Well, we are still working on them” and what not. Now we hear from you today that in fact they are in a book somewhere and it is too costly to reproduce the book.

**The Chair:** No, it is not exactly what I said. What I said was that the cost of the book was not justified in terms of the amount of circulation it was given, and that the out-of-date figures you are looking for they are now working on and attempting to get for us.

**Mr Stockwell:** It sounds like a lot of what you just said.

**Mr Phillips:** The temperature has gone up in here, but it is just because the first document in October was, those dastardly Liberals left us with this awful financial situation.” Well, now we find it is starting to shift a fair bit. For those of us who watch this sort of thing, we now are saying, “Well, remember the billion-dollar windfall.” Coincidentally there was a windfall the previous year. One could have thought you would have watched out for another windfall, particularly when the federal government's own reports on the first six months showed personal income tax revenue up 24%; corporate revenue down somewhat. Corporate revenue down was incorporated in his October statement; income tax revenue up was not.

Mr Chairman, I am just having some difficulty wondering why those numbers may not be forthcoming. It is not going to make all of our tasks more difficult, because

we are going to have to prepare a report on expenditures with no idea of what the revenues might be.

**Mr Stockwell:** Mr Chair, I would like a clarification. When will we be receiving this information?

**The Chair:** I was not given a time.

**Mr Stockwell:** So really we are still operating in the dark. We have no idea if we are ever going to get the revenue figures before this committee rises. Then I would move adjournment until we receive that information.

**The Chair:** Okay, then—

**Mr Sterling:** Mr Chair, I would like to speak in support of the motion in that it just seems to me that since we were supplied this kind of information by the previous government, the impediment to our getting this seems to be rather minor in that to photocopy 11 or 12 copies probably could be done by 2 o'clock this afternoon, or it may even be able to be done in an hour or an hour and a half, and we could have a copy of it. I would suggest that if the Treasurer is willing to co-operate, we can come back and make some reasonable recommendations to him on the basis of all the information.

**Mr Sutherland:** I would certainly like to speak against the motion. We have business to do. We have been working on the draft report and can continue to do that. I think the request has been put in. Your concerns have been noted. They are officially on Hansard. I think we should proceed with the report from there. If you go back and read the report last year, the 1990 report, in there the entire report—while the figures might have been provided—does not make reference to what the revenue figures are in determining their recommendations. So if that was the case then, why can that not be the case this year, if there are issues to be dealt with?

**Mr Elston:** Big deal.

**Mr Stockwell:** Give us some numbers, then.

**Mrs Sullivan:** There is a singular difference in the kinds of recommendations that are put forward.

**The Chair:** Are there any other people who would like to speak on this, in order?

**Mr Stockwell:** Is the number 6, 8, 68—

**The Chair:** Excuse me, Mr Stockwell. Seeing no further requests for speaking, I am calling the question. Those in favour of adjournment, please signify by raising your hand. Those opposed? Opposed wins.

Motion negatived.

**The Chair:** We will continue with the hearing.

**Mr Stockwell:** You are on your own fellows. Good luck.

**The Chair:** I think it was agreed yesterday that this morning we would continue with the draft version of the first part of the document, and this is the first revision that you have before you. I would like to work through that in a similar manner that we did before to clear up questions or wordings.

**Mrs Sullivan:** I wonder if that is the appropriate way to go. I think we were given an indication by the government party yesterday that it would be coming back with

the recommendations. Going through the introductory document, it seems to me at this point in time when discussion on the recommendations from the government party have been promised for a day—when we adjourned early yesterday, our expectation was that we would have those recommendations this morning to discuss them, and I think that is the way we should be going.

1030

**Mr Jamison:** We have some recommendations available this morning, so I think it is important to try to make sure that the document itself reads the way we intended it to read. That is part of the process also. I can assure you that we do have recommendations available. We would like to quickly go over this document to make sure the appropriate changes that have been recommended have been made.

**Mrs Sullivan:** It seems to me that when a recommendation is put on to the floor as a recommendation that will go from a legislative body to the Treasurer of Ontario in relationship to the budget, the context around which those recommendations are made is very important. We have spent two days editing a context with nothing to fit in, in terms of what the specific recommendations are going to be.

I have never seen the process work like this in a committee before. It is very bizarre. I think it is time to get on to the recommendations. The editing of the introduction to those recommendations can take place latterly.

**Mr Jamison:** Does your caucus have recommendations also prepared at this point?

**Mrs Sullivan:** We have been given a commitment from the governing party that your recommendations would be put on the table so that we could have those to discuss.

**Mr Jamison:** We are working as a committee. That is my point. We have some recommendations to send forward. Does your caucus have any recommendations at this point?

**Mrs Sullivan:** Let's see your recommendations.

**Mr Elston:** Basically, if I might, we had been told by Mr Christopherson, who was I think sort of organizing the government caucus response to this, that he was going to put in front of us this morning what your caucus felt were places where there would be substantial agreement, that we could agree on some things, that we would agree on those areas and then we could perhaps start debating or discussing the areas around which there was going to be some real concern.

That being the case, we did not specifically decipher that item 1, item 2 or 3 and then list them as the areas we would bring forth. We thought we might as well wait for that matching, since Mr Christopherson has made it fairly clear that there are going to be certain areas in which the six of you, as representative of the government caucus, are going to want to press your advantage. That is the way this committee is structured and it will work that way.

It seemed rather a strange duplication, although we have our feelings about some of the recommendations, it

would have seemed to be a very strange duplication effort for us now to file our list with your list or whatever when we have been told for the last couple of days that was coming forward. I do not have and we do not have a particular list prepared, but we have talked about the areas in which we have a sense of direction and a need to go to and we are prepared to comment in that line.

**The Chair:** Could I suggest at this point that we move through the document and whatever recommendations are available as we finish a section, we can include those recommendations?

**Mr Elston:** Except that they are not exclusive, take it, that these—

**Mr Jamison:** We have observations and recommendations available on a number of sections of the document. I felt that the document is not just the observations and recommendations, but it is also a document that is going to be read, as was pointed out very clearly by Mr Elston yesterday, by a wide-ranging number of people interested in the economic outlook of the province. I think it is important to ensure that it reads the way that we feel it should, and in the related form, I think that is part of the process.

**The Chair:** I am trying to find a compromise here.

**Mr Elston:** Let's be realistic about it, there are five there used to be six but one has disappeared—government members and the three of us. If it is the will of the government caucus that we move to read this, let's not waste more time. Let's just read it, because you control the committee. Let's just do it and let's not fight about it any more. It is a waste of time.

**Mr Phillips:** I think Hansard would show that yesterday we started on one recommendation and then the discussion was, "We must see the whole." I think everybody felt we would be better to see the whole package rather than debate each little one. I think Mr Christopherson said, "We are going to go away and we will give you a package." Then there was a debate, "What about your recommendations?" And I think the comment was, "Why don't we start as close to the end as we can, because knowing how these things work, that is probably where we will end up, so why don't we start with your recommendations?"

I think Hansard would show what we were expecting this morning was a package, maybe not 100% there, 85% there, to begin the debate on the kind of crucial stuff which will be the recommendations. That is what we expected.

**The Chair:** I believe Mr Elston said he would expect the impossible. I think that was it.

**Mr Elston:** No, no, we did not expect them all.

**Mr Sutherland:** I would like to just move for a five-minute recess.

**Mr Phillips:** One thing I would not mind knowing what is the timetable when we will see those recommendations, so we have some idea.

**The Chair:** Let's have a five-minute recess and come back, and we should be able to enter it at that time.

The committee recessed at 1036.



**The Chair:** Okay, what have we decided?

**Mr Hansen:** We have a fair amount of recommendations to the standing committee here. We have them printed. We just felt, and I know the direction that I had from Mr Christopherson was that we go through the pre-budget consultations, so that is why we are sort of following that direction, but we would like to go through these recommendations, what we have prepared to date, and we will hand copies out to the other parties.

**The Chair:** Would you prefer to do them in the context of what is written, or do you want to just do the recommendations?

**Mr Sutherland:** They are presented in a way consistent with the way the draft report has been written, except these recommendations do not start at section 1. I believe they start at the section on finance and economics on page 16 of the draft report, but I think they should be able to follow in a fluent way as they are set out in the copies they are getting.

**The Chair:** Could I make a suggestion that we turn to page 16 of the report, that section, and deal with the recommendations on that section. Is that acceptable?

**Mrs Sullivan:** In the old draft?

**The Chair:** In the old draft? What is the topic then?

**Ms Anderson:** I think it would be page 20.

**The Chair:** Social issues, page 20.

**Mr Sutherland:** Yes, I think the page does change in the new draft.

**The Chair:** Could I say that we quickly read that section and then do the recommendations. Is that acceptable? Let us read through it.

Should we begin the discussion on this section? Are we prepared to begin the discussion on the recommendations for this section?

**Mr Elston:** Perhaps if we just had some informal chats back and forth on some of this wording. I am not prepared for "Legislation that reinforces poverty," thanks very much. You may think of us as Stone Age-type folks, but we are a little more advanced than that.

**The Chair:** Could I ask then, do we want to go off the record and just do this? Do I have consensus to go off the record to do this?

**Mrs Sullivan:** Why should we be off the record? Everything else has been on the record.

**Mr Elston:** I was just exchanging a view with Norm; I was not speaking to the committee.

**The Chair:** When you said that—

**Mr Elston:** If you are ready to go on dealing with the wording, that is fine, but I was not.

**Mr Sutherland:** He does not want to—

**Mr Elston:** I was just asking for an explanation. I did not think it made sense and I was just asking to talk about it. If you want it on the record or if you do not want it on the record, it does not matter to me. I just wanted clarification.

**The Chair:** This is completely up to the committee.

**Mr Elston:** Leave it all on the record then, and then you do not have to worry about it and people can clarify what they mean.

**The Chair:** Okay. We are still on the record, but these guys are just talking.

**Mr Sutherland:** I think what was missing was the part about "Legislation that reinforces poverty can be abolished." I think the abolition is—

**Mrs Sullivan:** The abolition?

**Mr Sutherland:** No, that "Poverty can be abolished by the following measures." I think that word kind of changes the context.

**The Chair:** Where are we?

**Mr Elston:** This thing right here that says, "Income adequacy is fundamental." Then it says, "Legislation that reinforces poverty by the following measures."

1050

**The Chair:** What they should probably say is, "Legislation that impedes"—

**Mr Sutherland:** No, I think the wording should say, "Legislation that reinforces poverty should be abolished by the following measures."

**The Chair:** I am not sure you would want to say that.

**Mr Elston:** There is not any legislation that specifically says there ought to be poverty.

**Mr Sutherland:** No, sorry. I think maybe it is a question of where the emphasis is going in sentences. "Legislation that reinforces poverty should be abolished."

**Mr Elston:** Minimum wage is changed by regulation, so I mean—

**The Chair:** This next one says, "The government should improve STEP by enabling recipients to keep a greater percentage of the income they earn." Is that what you are referring to? That these kinds of caps should be raised and that people should be allowed to have more money from their income?

**Mr Sutherland:** I think it is just a question of getting the wording straightened out in that first one.

**The Chair:** That is a legislated thing, that you can make only so much money before you start having it deducted from your welfare.

**Mr Elston:** That is actually a regulation.

**The Chair:** Yes, that is a regulation that creates a problem. The wording is terrible, I agree with you, but maybe that is what they are trying to get at.

**Mr Elston:** Is this the guy responsible for this?

**Mr Sutherland:** I do not know—

**Mr Elston:** Name names.

**Mr Sutherland:** Why do we not just reword it as "the following legislation should be introduced."

**Mr Elston:** "Should be introduced"?

**Mr Sutherland:** Yes, replacing what is there. Okay?

**Mr Elston:** So we end up having: "Income adequacy is fundamental to welfare reform. Legislation should be introduced"—

**The Chair:** "That."

**Mr Elston:** —"that should"—

**The Chair:** "That" should be "to." You have to change the wording, "to raise the minimum wage to"—

**Mr Sutherland:** No. "Legislation should be introduced that the minimum"—oh, okay, sorry.

**The Chair:** I am trying to make it grammatically correct.

**Mr Sutherland:** That is right.

**The Chair:** My name is going to be on this, you know.

**Mr Sutherland:** That is right.

**The Chair:** As is yours.

**Ms M. Ward:** Why not just say "We recommend"?

**The Chair:** "Legislation should be introduced to raise the minimum wage and the government should be instructed to examine the two-tier delivery system for social services."

**Mr Sutherland:** Sounds good.

**The Chair:** Is there any debate on the intent of this recommendation?

**Mr Elston:** Probably not the intent, as long as we get it clear. What has happened here is that the people who have put the recommendations have tried to bullet-point them for ease of expression and have actually cut themselves off. They should have just done separate ones saying, "Income adequacy is fundamental to welfare reform and to dealing with the problem of poverty." and "To do this, the level of the minimum wage ought to be addressed."

Then they should go on to the second one, "The two-tier delivery system is an impediment to welfare reform," or whatever the committee wants to say, and then have a separate bullet for it. You are trying to do too much with the bullet points, that is all. Just write the sentences, it is much easier.

**The Chair:** Yes, this could be simplified in the language if you just said that the committee recommends that the minimum wage be raised and that the two-tier delivery system for social services should be examined, or some form like that. You do not really need to rationalize this part.

**Mr Sutherland:** "The committee therefore recommends that the minimum wage should be raised and the committee therefore recommends the examination of the two-tier delivery system for social services."

**Mr Elston:** I do not mind the thoughts that go behind that. The Social Assistance Review Committee was quite interested in the level of wage rate, but I am not quite prepared—I guess we should go through the whole level of things because it does not look to me like there is enough onus being placed on government to clean up its act. They have talked a little bit about STEP here, they

have talked about perhaps indexation, but they have really done enough here for government.

For instance, as my colleague Mr Sutherland just said, what about a recommendation to eliminate a number of lower-income-earning Ontarians from paying income tax? Mr Nixon has consistently over the years kept raising the level and eliminated more people from the lower end of the tax obligation scale in Ontario, even though the government did not do it. I think we ought to see that trend in the future continuing. The package is not complete, and I do not want to say yes to the first until you know what the whole package is going to look like. It is fine the way you express it but

**Mr Jamison:** All right. We want your input and your discussion on it. If you have recommendations that you want to put forward to improve upon what we are saying here, we will certainly consider them.

**The Chair:** Two things. I think I am hearing a consensus that the philosophy of what the committee is trying to say is there and that what we are grappling for are ways to express the actions. I have this attempt, "Regulation that reinforces poverty should be replaced by the introduction of legislation that raises the minimum wage and that allows for the examination of the two-tier social service system."

**Mr Elston:** Nice try, but—

**Mrs Sullivan:** Are you suggesting, Mr Chairman, that the number one paragraph on this page be followed by that? I am just not certain where you are going here.

**The Chair:** I am at the will of the committee. I assumed that since we were doing the committee's observations and recommendations, that paragraph would be included there and then, "Therefore, the committee recommends that." I believe that has been the format in the past. I think we agree on the philosophy. All we need to do is agree on the words. Mrs Sullivan.

**Mrs Sullivan:** If I could just talk about the kind of practicalities of the recommendations and inclusion in the budget, it seems to me that what we are asking for in putting recommendations forward is that the Treasury take these into account in defining and drafting and implementing the next budget, so the recommendation should be specific to that budgetary period.

If the questions, for instance, of income adequacy are the priority questions to be addressed, then surely the context in which those questions have to be put is the first phase of the SARC recommendations, which have been accepted by all political parties in the Legislature. The SARC report has been seen as a positive recommendation for change in that area, and perhaps given an introduction to the social issues area relating to poverty, the fundamental recommendation should be that the government should announce in this budget a timetable and funding for implementation of the next phase of SARC recommendations.

**Mr Sutherland:** Mr Chairman, that recommendation is already there. It is down a little further.

**Mrs Sullivan:** Yes, we take that and give it the priority.

**Mr Sutherland:** If you want to change the order of the recommendations—



**Mrs Sullivan:** Because all the other income adequacy recommendations fit into the next phase of SARC.

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**The Chair:** Does anybody have any problem with moving that up and doing it the way Mrs Sullivan has suggested?

**Mr Hansen:** No problem there. Would you do that again so that the researchers can have it?

**Mrs Sullivan:** Okay, it would be, "The government should announce in this budget a timetable for implementation and funding of the next phase of the SARC recommendations."

**Mr Sutherland:** Sorry, I thought you were referring to the actual recommendation here which is, "The government should announce a timetable for the implementation of SARC recommendations."

**Mrs Sullivan:** What I am saying is, in the context of budgetary planning, funding is what the budget is about.

**The Chair:** The SARC report does have recommendations for funding in it. Do you see some fundamental difference between "The government should announce a timetable for the implementation of the SARC recommendations" and "The government should announce a timetable for the implementation of the SARC recommendations"?

**Mr Sutherland:** I think it is inherent in "implementation" that if you are going to implement it, you are going to have to provide the funding for it.

**The Chair:** Then why are we worrying about that wording?

**Mr Sutherland:** That is why I am wondering why we need that wording. "Implementation" implies that.

**Mr Elston:** Mr Chairman, just to help Mr Sutherland out, a big deal was made during the last election that too much had been passed to municipal governments perhaps to help fund some of these social reforms. In fact, I know a good number of your colleagues who may not have been quite as successful as you are, who tried to make those points very pointedly and said that even though we had announced the plans and expenditures, there was not enough money coming forward to do it all. We want to be very clear too. It needs to be consistent.

**Mr Sutherland:** I think that issue, though, was dealt with when we dealt with the issue of municipalities and I am not sure if it is in this group, but there will be recommendations coming forward about that whole issue related to provincial-municipal financing and different issues.

**Mr Elston:** Of course, you know something that we do not. That is why it is difficult for us to—

**The Chair:** I agree. As the Chairman—

**Mr Sutherland:** It is a separate issue, though, Mr Elston.

**Mr Elston:** Not from social reform.

**The Chair:** —I am having a little difficulty. I would like to get this moved along and I do not see that there is a big problem with including funding. The SARC report does have recommendations for funding and if you are

going to put in a timetable, the adding or deleting of that word is—

**Mr Sutherland:** What I suggest is that we agree on the concept of moving up that recommendation to the first, then maybe we can have a little more discussion early this afternoon about the exact wording of that recommendation.

**The Chair:** I guess we can; I am not saying we cannot. I believe my task is to try and move this along. I do not want to turn this into a semantics argument about where words should be and what words they should be. If the basic intent of the recommendation is agreed upon—

**Mr Sutherland:** Do we have consensus that we move that up and then the other recommendations here come after that?

**The Chair:** That is my line.

**Mr Sutherland:** Sorry, I was just trying to help facilitate the process, Mr Chairman.

**Mr Elston:** For the purposes of discussion and for putting this thing together, let us go ahead and assume that. My problem is this: You ask me to approve that and say a little later you disagree with the whole package, yet you approved of it before, why did you change your mind? Then I cannot feel comfortable with your assurance that my concern here will be dealt with because you are thinking about doing something in another package of items to come forward. Do you see what I mean? But for the purposes of discussion and construction, let us just move ahead.

**The Chair:** I agree with that and I also would say that once the whole report is put together we should try and have some time to revisit the whole thing just to make sure that it is in the context that everybody feels comfortable with. Would that satisfy you?

**Mr Sutherland:** Sure.

**Mr Elston:** Take a look at it at some future point.

**Mr Phillips:** Maybe I am changing the subject, but on the minimum wage now, have we dealt with that?

**The Chair:** I believe we have consensus to move that up, yes.

**Mr Phillips:** I think we probably all could agree that the minimum wage should be raised, because it is raised every year. But then if you get into a debate, "What did you mean? What did they mean?" I think the challenge here is that any analysis that I saw done says there is a major job impact if you take the minimum wage up.

I guess you have already announced what you are going to do with it, but if it just says the minimum wage should be raised, then when someone says, "What did you mean?" I think I mean what would be consistent with a reasonable economic impact study. What you will mean is the 60% of the industrial wage that you have committed to, I think. So if it is as vague as that and each of us can have our own interpretation of it, that is what I would be saying.

If the minimum wage should be raised and the implication is to your policy, then I would say there is no way we could agree to that, because we have put a different interpretation on the minimum wage and it is jobs, jobs, jobs.

So if that were to stay in and implied that it meant your 60%, I think we would have to be looking at something that says, "Consistent with ongoing economic analysis of the economic impact studies of the implications of the raises." I am saying if this stays in there as vague as that, I do not think anybody could argue, because I think when we were in, we took it up every year.

**Mr Hansen:** So you agree with the statement that the minimum wage should be raised?

**Mr Phillips:** Yes. Then if someone said, "What did the committee mean by that?" I would say the committee was silent on what we meant. If it meant that the committee agrees with the NDP policy, I would say we would not be supportive of it.

**Mr Elston:** We would have to say it was a majority view.

**The Chair:** What I am hearing is to leave it like that; no, not leave it like that. Mrs Sullivan, do you want it more clearly defined with, "The minimum wage should be raised"?

**Mr Phillips:** As long as you realize that our interpretation would be as it is done every year and consistent with economic analysis. If you say, "Well, we have our policy on that and that is what it meant," then we will be much more specific.

**Mr Hansen:** We agree with that.

**Mr Elston:** Could I just raise a question about the preamble, the sentence that talks about, "The committee is disturbed by the lack of adequate levels of social assistance benefits to those in need." The first clause of the next sentence, "Although the present economic reality may not allow for significant expenditure increases in many areas," whence does that come?

Is there some compromise of our sense that social assistance benefits are not quite right and so, as long as there is some economic uncertainty, we allow those to stay, or are we committed to the idea that was expressed in the first sentence? Can you just take that thing right out and say the committee feels that it must stress the importance of dealing with the overall structural causes of poverty, just eliminate the economic thing.

**Mr Jamison:** Not really.

**Mr Elston:** Why?

**Mr Jamison:** Because this committee has to recognize the time and space that we are in as far as the economics of the province are concerned. If we just ignore that altogether, we are not giving a picture at all of our thoughts.

**Mr Elston:** How can you make that judgement when we do not have anything that tells us what the real revenue forecasts are all about? We do not know yet what the—

**Mr Jamison:** I think the Treasurer made it fairly clear on Wednesday that it looked like we were going to be into deficit budgeting. That is a clear indication in itself.

**Mr Elston:** So as a caucus are you comfortable with the position that as long as the Treasurer says, "There is a

deficit and I am not prepared to change the structural causes of poverty," you would stay at that?

**Mr Jamison:** It is a fact that you have to take into consideration when you are making your recommendations. These recommendations go forward and are based on the government's fiscal ability.

**Mr Elston:** So you would say this fiscal outlook is going to cause your caucus to withdraw from your commitment to changing the structure around poverty.

**Mr Sutherland:** That is not how I interpret what is there.

**Mr Elston:** That is what that sentence does for us.

**Mr Sutherland:** I think that is your interpretation. It would suggest that is not our interpretation.

**Mr Elston:** These are the first weasel words that allow you to soften up the readers of the report to the Treasurer backing away from your philosophical position. That is why this sentence is in there. It allows you to soften up so Floyd can say, "Even the committee of the Legislature recognized I have some fiscal problems, they didn't recommend I do anything right away."

**Mr Sutherland:** If you look at the last part of the sentence which says, "The committee feels it must stress the importance of dealing with the overall structural causes of poverty," to me that is a very strong commitment. That is not backing away from the issue.

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**Mr Elston:** It would be even stronger if you just eliminated that first weasel-word clause.

**Mr Sutherland:** I do not think the term "weasel word" is appropriate in this case.

**Mr Elston:** That is what it allows.

**The Chair:** Under the rules, I do not think that is one of the forbidden words.

**Mr Elston:** Everybody understands what that means. You are trying to have it both ways by that sentence. No matter either you are committed to it or you are not. If you want this report to allow Floyd to back away from some of the stuff you campaigned on, that is okay, but you ought to say it directly.

**Mr Sutherland:** Mr Elston, you are proposing to eliminate all the way up to the comma. Is that what you are suggesting?

**Mr Elston:** Sure. Either you believe it or you do not. Then it is up to the Treasurer to make the decision.

**Mr Sutherland:** Leave it until later.

**Mr Elston:** Right? That is what SARC is all about—dealing with the underlying causes. How can we endorse SARC, which is supposed to deal with the structural nature of the poverty cases, and then say, "Although the economic reality may not allow"?

**Mr Phillips:** Maybe we should say the Ontario government has reacted to predictions of an economic slowdown by dropping its liberal pretence and showing its true conservative nature.



**The Chair:** I do not think we are going to get a consensus on that.

**Mr Phillips:** That is what he said last year. That is the DP report from last year. I just thought maybe you would want to restate that.

**Mr Sutherland:** Mr Chair, it would seem that there is a proposal put forward. May I suggest for the purpose of progressing here on some of the other recommendations that we come back to that this afternoon.

**Mr Elston:** Do you want it in or do you not? You can decide that now, can you not? What are you going to do with that?

**Mr Jamison:** It is a report on finance and economics. As far as I am concerned, that is a reality that we are now living.

**Mrs Sullivan:** Budget-making is making choices and one of the things that this whole area related to poverty has been addressing so far is the choice of addressing the inadequacies of incomes. If the committee in a consensus position believes that it must stress the importance of dealing with the overall structural causes of poverty, that is what should be there. That is what should be the lead-in, without words that in fact weaken that position.

**Mr Sutherland:** If you look at the last few words where it says "increases in many areas," that is just highlighting that we are in difficult economic times and some areas may not be getting what they say they want. Then if you continue on to see what it says, I think it is emphasizing the fact that this committee wants to deal with these issues of poverty.

**Mr Elston:** Listen, you guys are anticipating that David is not going to go as quickly with SARC as some of the groups want to. That is what that whole thing is about. The people who helped you write this have that precisely in mind, because, listen, we know what happens. David has been asked with Floyd; he is just a parliamentary assistant. You guys have been in touch at least with David, if not also with Floyd, and Floyd says: "Listen, we can't do everything we want to do. Soften this thing off so that I have some room for manoeuvring."

**Mr Sutherland:** That is Mr Elston's interpretation and I would suggest it is not everyone's interpretation.

**Mrs Sullivan:** In that case, and if that is not the case, then I do not see why the members of the committee cannot do what in fact appears to be the consensus. Leave out the weasel words and in fact include latterly the commitment to a recommendation from this committee that the Treasurer include the funding and the timetable for the next phase of SARC. That is the question. Those are the choices the Treasurer has to make. If we want to go ahead with a consensus of this committee with providing income adequacy, those are the next steps and those are the funding requirements.

**Mr Sutherland:** I think it was stated earlier that we should consider this and get back on that specific proposal put forward by the other members.

**The Chair:** I would like to point out that we are a day and a half from having this done, signed, sealed and delivered

to the researchers. If we continue to put all these things off until later on, we will never get through this. I would really like to see, when this comes back this afternoon, that we know exactly where we are going with this and what is going to happen.

**Mr Sutherland:** We are well aware of the time constraints placed on this committee and the issue will be dealt with.

**Mr Phillips:** It may be helpful to the government, you may find it useful just to re-read your report from last year, because it kind of makes the case we are trying to make to you in terms of I think you were quite strong last year saying that, "The Liberal government is now spreading the message that 1990 will be a year of financial restraint," etc. We see some—I guess a strong word would be "hypocrisy"—in this thing.

**The Chair:** You cannot use that word; I know that.

**Mr Phillips:** Okay, "inconsistency."

**The Chair:** Mr Elston pointed that out to me.

**Mr Elston:** He did not actually use it; he just said he saw it. He was remarking that it was available for viewing.

**The Chair:** I saw that too. Can we move along on this to get consensus on the rest of the recommendations for this section?

**Mr Elston:** Basically I noticed that, as this was constructed, I read the whole thing as a package. I notice there is a repetition of about three or four ideas on the two pages. I do not know whether it was to make sure you did not miss them or if there was a particular style of construction that required you to repeat at least a couple of these. We have, "The government should improve STEP by enabling recipients to keep a greater percentage of the income they earn." That is on page 1. On page 2, "The government should improve STEP by enabling recipients to keep a greater percentage of the income they earn." I am not sure exactly what you want to do with that.

**Mr Sutherland:** I think that was just a question of, in the process of developing, a couple of recommendations came from different areas.

**Mr Elston:** Okay. Then, "The government should consider that income adequacy is essential to ensure welfare reform." Then it continues on the second page. If we speak only to the issue of implementing SARC, it speaks both to dealing with the institutionalized barriers to elimination of poverty and a whole series of other things. You can say the same thing by very simple words, or at least very simple sentences, rather than trying to construct something that is more complex than it needs to be.

**Mr Sutherland:** I think we will take under advisement your vast experience in these areas on helping with these committees.

**Mr Elston:** Oh, I have no experience in the last five years in helping with these committees. It just means that it becomes simpler. If we say, for instance, "SARC," what does that entail? Most of the people who are interested in this document—Treasury, Comsoc people, Health, anybody who is interested in the advocacy field, people who are recipients, all those people—even Conrad Black for

different reasons, but still is interested—and when you say move to the second stage to deal with those barriers, then that is understood at least and you do not have to repeat. You might want to do something. The STEP thing is an important issue I think in the sense that you are saying, “Change the way it’s set up.”

**The Chair:** Do we have a consensus on that one? Okay.

**Mrs Sullivan:** If we are sort of moving ahead on things that are here in terms of recommendations, I would certainly like to see added two committee recommendations. The recommendation from the committee that additional low-income earners be removed from income tax rolls, I think it is a continuation of a policy that has existed over a period of time and in fact provides equity and fairness to low-income earners. I think that should be a recommendation.

I am also quite sceptical about including as a recommendation from the committee the recommendation relating to the guaranteed loan plan. We have had one group that appeared before us that talked about its experiences through a privately funded, non-profit organization that had some success there. I am not sure that we would have a consensus as to whether that kind of a program ought to be taken over by government or whether we ought to expect the private sector to continue with those kinds of initiatives.

Second, whether—

**The Chair:** Could we deal with these just one at a time?

**Mrs Sullivan:** But it is in the same context.

**The Chair:** All right.

**Mrs Sullivan:** Second, the question of providing a guaranteed loan program, perhaps reviewing, but I would think that would be the least of the recommendations that ought to be included when we are addressing questions of income adequacy.

**Mr Sutherland:** Would you support the idea of just having some more examination of that type of system, the guaranteed loan program for business development?

**Mrs Sullivan:** It seems to me if the question is income adequacy, SARC and the income tax rolls have a far, far higher priority.

**The Chair:** There are two things there. One is the removal of or changing the income tax.

**Mr Hansen:** The bracket.

**The Chair:** The bracket. No problem with that?

**Mr Hansen:** No problem with that.

**The Chair:** Okay, we will include that. I have consensus on altering the income bracket. Could I have some wording on that? How would you want to word that on the income?

**Mrs Sullivan:** On income tax?

**The Chair:** Yes.

**Mrs Sullivan:** “The committee recommends that the Treasurer remove additional low-income earners from the

income tax rolls following the pattern of the previous years of budgeting.”

**The Chair:** “Should remove”?

**Mrs Sullivan:** No, “remove.”

**The Chair:** Okay, that has a consensus, so we going to move along from that. The next one is the guaranteed loan. Do we have consensus on that? To remove, leave it in? I thought we were leaving it in. Did I misunderstand?

**Mr Elston:** I certainly did. I thought Barbara was gesting that it be out.

**The Chair:** I have missed something here. Could review what you said about that?

**Mrs Sullivan:** I am not keen on it. I think in terms of income adequacy, it does not fit.

**The Chair:** Would you see this as being recommended somewhere else in the text?

**Mrs Sullivan:** As a budget initiative, no.

**The Chair:** Okay. Just from my own recollection somebody made a presentation that she had difficulty cashing her cheques at banks or trust companies, that did not have accounts or something, and somebody investigating the possibility, some previous government about having identification that would then require banks and trust companies to cash those cheques because they are government cheques.

**Mr Hansen:** The problem was that the cheque, coming out, it was dated the 30th and people were receiving them on the 27th or 28th. They would not cash them because they were actually dated ahead.

**The Chair:** They could go to the Money Mart people and cash them.

**Mr Hansen:** Yes. Actually, when it came down to the cheque was due on the 30th of the month and they received it two days earlier in the mail.

**The Chair:** Do we want to make a recommendation around that? That is a systemic thing.

**Mr Hansen:** I have no recommendation on that. Whatever the cheque is dated at should be the date it is cashed. It is going to be up to whoever is sending the cheque out to date it back two days.

**The Chair:** One of the problems though, and I am throwing this out for discussion, is that they had difficulty sometimes cashing the cheques even in the banks because they did not have the proper identification.

**Mr Elston:** Generally the person is supposed to cash the cheque at any financial institution. If you do not have an account or if the cheque is not drawn on your own bank, that is—

**The Chair:** Then they would go to the Money Mart and they would wind up having to pay a surcharge on top of a discount. Is that something this committee might want to recommend having something done about?

**Mr Elston:** To the Treasurer?

**Mrs Sullivan:** It is not a budget decision.

**The Chair:** No? Okay.



**Mr Jamison:** We would ask for a short recess, 10 minutes, at this point.

**Mr Phillips:** Did something happen we did not see here?

**Mr Jamison:** No, it did not. This is of course our initial draft and certainly it is there for discussion. But we have some concerns for the committee at this point and we would like 10 minutes to address them for the committee.

**The Chair:** Sure.

The committee recessed at 1125.

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**The Chair:** Since we have had this break, where are we going now?

**Mr Hansen:** Do you think we could on to housing?

**Mr Elston:** I am quite agreeable. I did not know what we were about to hear, so I am happy to go wherever.

**Mr Hansen:** There was not anything unusual.

**Mr Elston:** I thought it was in relation to social matters that you wanted to have a talk.

**Mr Hansen:** No. That is why it was so abrupt and quick.

**Mr Sutherland:** The points that you have brought up, we will come back to this afternoon and try to deal with them more specifically then.

**The Chair:** Housing. That is page 21 as well. We will take a minute to read the preamble.

**Mrs Sullivan:** I do not see any budget recommendations here. What I see are some comments, but in terms of budget recommendations to the Treasurer on which fiscal and financial decisions can be made, I do not see recommendations on which his decisions could be based. I would suggest that if the committee is to have legitimacy it ought to become far more specific, including perhaps reflecting the government party's promise to the people that we would construct 20,000 non-profit units a year and talk about some other aspects of the housing question which have been raised in this committee.

I also look in the housing documentation that the government party has raised suggesting 10.5% mortgages, a mortgage fund, availability and so on, other recommendations that came from groups from the non-profit and co-op communities that were very significant and right before the committee. All I see here is something that the Treasurer could make no decisions on. Antidiscrimination policies are not budgetary decisions, and I just do not understand. Once again, what I see here is the waffling.

**Mr Sutherland:** If I may, just before we continue, I believe the reason is—and apologies for that—if you remember when the draft report was being drawn and we were talking about the sections under housing, a great deal of those issues came under the topics of construction. Those recommendations for those areas will be coming forward when those recommendations under that area are brought to you this afternoon. Okay.

**Mrs Sullivan:** Then perhaps we should go on to another topic.

**Mr Elston:** Our committee should just sort of wait till this afternoon. We have only got another 10 minutes or so this morning. I mean, can we make progress with the next section? I looked over these things quickly yesterday. As you know, I am not as into these presentations as some of you, because I did not hear the presentations actually, so I looked at the recommendations. But for instance, housing was a \$900,000 request basically from the Victorian Order of Nurses with respect to home-sharing programs operating under VON, and there is an amount for—what is the name of the program?—Let's Build Ontario or something. Those types of programs are fascinating for more than one reason. One is, of course, that it supplies housing, which we all want people to have. Second of all, there are jobs and other fiscal and economic advantages put forward as part of the rationale for their being in recommendations to the Treasurer.

It seems to me that it would be of some merit for us to maybe debate or at least talk about some of those types of programs, not saying we will do them all but to say, "Listen, Treasurer, there are at least a menu of items that have come forward that have merit because they include employment plus the development of housing."

**Mr Sutherland:** Maybe we should, and that is a possibility of doing that. We could probably get the next two topics done at least before we adjourn for lunch.

**Mr Elston:** Okay.

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**Mrs Sullivan:** There is a section on disabled. I assume that is one of the topics we will be coming back to, or has that been included as the end of the social issues?

**Mr Sutherland:** I believe if you look on some of the things that you commented on that were in there twice, on page 2 of the document that was put forward, it does deal with some of the disabled issues.

**Mrs Sullivan:** What I am asking is if you intend to come back to those or if you feel that our discussion on social issues has covered that entire topic area.

**Mr Sutherland:** If you feel those recommendations are satisfactory, then I would suggest that we—

**Mrs Sullivan:** We have not had a discussion on those pages.

**Mr Sutherland:** Okay. So you would like to have some discussion on them.

**Mrs Sullivan:** Yes.

**The Chair:** Can we do these two observations and recommendations for the immigration? We can wrap this and we will have lunch and we will come back.

**Mrs Sullivan:** Once again, I do not see a recommendation here that would enable the Treasurer to respond in fiscal and financial terms, which are the context of budget-making. It seems to me that if the committee is going to make recommendations relating to programs surrounding the integration of immigrants into the community, the recommendations relating to the budget have to be phrased in financial terms. Therefore, the kind of wording that ought to be here would include such things as, "The government of Ontario should pursue additional agreements with

Ottawa and fund in the next budget its own commitment to ensure the range of settlement services" and perhaps even put a commitment funding level in. Without the recommendations from the committee of financial involvement, there is no recommendation for budgetary action.

**Mr Sutherland:** I would disagree. What is stated there advised that if you are going to negotiate an agreement, I would suggest that is going to be a joint agreement between the province and the federal government and would imply that there would be funding from both parties. It would seem evident to me that that is implied in the statements there—that if you are going to have an agreement, both parties are going to be part of that and both of them are going to have to pay the cost of that, and I think that is very clear in both those.

**Mr Elston:** I know that theoretically that is true. The practical workings of dealing with the federal authorities is that the Treasurer will not allocate money on the basis of perhaps coming to a successful conclusion and agreement with Ottawa. He will say to the people from Community and Social Services or whoever goes to negotiate: "You come back. You tell me what you have, because my friend Michael Wilson has told me they ain't got nothing in their budget for this year. It will have to be next year." So there is nothing there. He will just say: "Well, nice idea. We will both send those people away and I am not going to budget for it."

I think that what we have to be sure of right here is that we make a specific point, a recommendation—we wrestled with this ourselves—a specific recommendation to the Treasurer that this government pursue fiscal ways of assisting people who are coming to Ontario for the first time from other countries to settle, to find a home here, and to help them access services that they need.

I think that we cannot manage the Ottawa thing and we know what the pressures are in Ottawa in the sense of where we think they are going. We have to make the point to the Treasurer. Those people who come here as immigrants need our help and are required to be helped. I know that when we dealt with the immigrant settlement issue, Ottawa just said, "We don't care." In fact, Barbara McDougall, I think, even made it clear this fall again that she was not going to pay any part of the cost of settlement of

immigrants. She was not going to pay for any of the education. Even though one of your ministers at the time I guess that is Marion Boyd, said we should get some money from Ottawa, Barbara McDougall basically said, "Don't count on it."

If we are going to make a recommendation that the help required, then maybe we should make that statement first and clearly indicate that it is our recommendation something be done fiscally to assist the organizations provide settlement help for immigrants.

**Mr Sutherland:** So you would prefer something that has the effect that the government of Ontario should ensure an adequate range of services.

**Mr Elston:** From a constitutional point of view, the federal people will say: "You have to make sure that the people are settled here. They are landed immigrants. They have status which requires you to respond to the educational and social needs of these people."

The other problem, which is a real one—you probably did not hear anything in terms of the presentations made was the hesitance that Ottawa has in granting the people who come here as refugees work permit status. That is the real problem that I know about from our own practical experience. I do not know if anybody talked about it here. I would be so bold as to recommend that the Treasurer in consultation with the Minister of Community and Social Services take upon themselves to ensure that work permits are available for immigrants, whether or not Ottawa allows them to pursue work permits here. That is a big issue in terms of the consumption of social dollars in helping people who could work but who are prevented from working because of their poverty issues.

We have wrestled with this with Ottawa for a while. I am prepared to be much more aggressive about it than I would prefer to be much more aggressive about it here because I know the inertia that is attached to this issue in federal-provincial relationships.

**The Chair:** We have three minutes left. Can we adjourn and come back this afternoon? What time would you like to be back? Two o'clock? Okay, we are adjourned at 2 o'clock.

The committee recessed at 1157.



## AFTERNOON SITTING

The committee resumed at 1416 in committee room 2.

**The Chair:** Mr Christopherson, would you lead the way please?

**Mr Christopherson:** I do not know about that, but I will talk first.

I understand from my colleagues that this morning there were some changes made that were agreed to and there were other changes suggested by the opposition that were taken under advisement. In the reworked document that has been circulated with today's date and timed 1:30 pm, some of those changes have been incorporated. If I can, just to bring me up to speed, I believe the first paragraph is not a problem.

**Mr Phillips:** On the first page? Actually, it is a problem.

**Mr Christopherson:** Is it?

**Mr Phillips:** Yes. I think our concern was that although the present economic reality may not allow it—we are in the area, I think, of poverty. I am not sure of the reading. Is it "Poverty" that this fits under? I cannot quite remember the report now.

**Mrs Sullivan:** Yes, we are.

**Mr Phillips:** I think you are signalling that in this area things that might have been said in the past—and I have quoted last year's document, the minority report around how you reacted to government—

**Mr Christopherson:** I am glad to see you use at least one other document besides the one.

**Mr Phillips:** In any event, it kind of jumps off the page as—"weasel" was the term used, particularly as this is the first time we have seen this phrase. "Hypocrisy" was the word we could not use, but it might be seen, relative to the previous words, as unusual. So I think we were suggesting that we simply say "disturbed by the lack of" and the committee feels it must stress the importance of dealing with the overall structure and causes of poverty," and not single out poverty as an area where we are not prepared to make significant expenditure increases.

**Mr Christopherson:** That concern was brought to our collective attention. In an attempt to be as accommodating as possible, if there is a desire on your part and that of your colleagues that that particular clause appear somewhere in the document—

**Mrs Sullivan:** How about never?

**Mr Christopherson:** No, I am saying that is our response to that. We are prepared to do that.

**Mr Elston:** Our desire was that it not appear, so how can you give us an option of choosing that?

**Mr Christopherson:** Because in terms of what we are prepared to accept in our position, that is what we are down to.

**Mr Elston:** Basically, then what you should be saying is that you are not prepared to have it removed. Do not say we have the option of putting it someplace else.

**Mr Christopherson:** Well, You do.

**Mr Elston:** That is not an option.

**Mr Christopherson:** That is your choice.

**Mr Elston:** David, that is not true. We said the thing should be removed.

**Mrs Sullivan:** Just to summarize the point of view of our caucus, we believe the introduction to this section of recommendations from the entire committee should begin with, "The committee feels it must stress the importance of dealing with the overall structural causes of poverty," and continue from there with specific wording. We are not prepared to have those particular words injected in this or other sections of the report.

**Mr Christopherson:** For the time being, then, that remains an unresolved issue.

**The Chair:** You can resolve it if it is a motion. Do you want it resolved?

**Mr Christopherson:** Well, I would like to keep us moving along in the areas of agreement as best we can. When it comes back to the hard rub and we have to do that, then so be it.

**The Chair:** Okay. Can we move along, then?

**Mr Christopherson:** I believe the only change along this line right now is that the recommendations have been realigned; the Social Assistance Review Committee one was brought to the top. I am not sure exactly how many of these were agreed, so I will just read them and we will see where we are:

"The committee therefore recommends that:

"the government should announce a timetable for implementation and funding of SARC recommendations."

I understand the request for the word "funding" came from the opposition and we were comfortable with that. We think that is indeed appropriate.

**The Chair:** Also, the committee this morning said the committee recommends that: "the Treasury remove additional low-income tax earners from income tax rolls, following the practices of the last five years." That was also one of the recommendations from this morning.

**Mr Sutherland:** I think that one still had some discussion, particularly about its wording.

**Mr Christopherson:** Next: "The government should consider indexation of social assistance rates to the consumer price index to ensure that rates reflect more adequately the true cost of living."

Hearing, nothing, the next point: "The government should improve STEP by enabling recipients to keep a greater percentage of the income they earn."

Next: "The province should push ahead in the CAP negotiations.

"The government should raise the minimum wage.

"The government should examine the two-tier delivery system for social services."

**Mrs Sullivan:** This particular point is one which was going to be left to a discussion of the municipal section of

the budget. In our discussions this morning, it was specifically left out of discussions relating to poverty. It seems to me that it fits in here, but we did not address that particular issue. There are some matters that my caucus wants to put on the table in relation to that recommendation.

**Mr Christopherson:** I am unclear on that anyway. How are we considering your caucus's points, positions, in terms of process? What is proposed?

**Mr Elston:** We generally debate here. This is your first cut at stuff, and we have just been joining the debate on the items as they are raised. In fact, the ordering here came out of some of the discussions we had, I think, and are significant.

**Mr Christopherson:** So your input at that point represents your position, if you will, on these matters.

**Mr Elston:** Except, as I said earlier, that we had a real concern about the issue around funding. Kimble had rightly said that you were saying some things further down the track about municipal funding for social services programs. We said it was impossible for us, then, to agree completely on a particular item until we saw the other half of the equation, but that we are prepared, for the purposes of getting something down and in written form, to go ahead with it.

**Mr Christopherson:** Fair enough. Sure.

**Mr Elston:** As long as you understand that we are giving the checkmarks along the way on the basis that there may be something further coming and that the package may look much better than the whole, I think you will understand about our position.

**Mr Christopherson:** That is not a problem. It is a two-way street actually, because, quite frankly, especially as we are all new at this, we may want to revisit some of these ourselves in light of issues you raise, discussions here, before the package is finally approved. So I think we have a great deal of comfort there?

On this specific then, Barbara, what were you looking for? To have it pulled and reinserted in another area or a discussion on that?

**Mrs Sullivan:** My point was that because it was, in this morning's discussion, not talked about because it was felt by members of your caucus that it fit into a different place in the report, under the municipal section, we have not addressed this. Indeed, my initial reaction is that this is a weak recommendation. If a recommendation goes forward from the committee, it ought to be that the government should not simply "examine," but that the government should replace the two-tier delivery system and fund social assistance from the provincial base. That is the recommendation from the SARC committee and that is what we think would be appropriate to be included in the report, but we have not had that discussion.

**Mr Christopherson:** I am hearing from my colleagues around me that in light of that discussion, we do not have a problem pulling it from here, reinserting it in the proper municipal area, recognizing that there may still need to be a thorough discussion, on all our parts, around

it. We will put that out for now with the intention of reinserting.

"The government should consider that income adequacy is essential to ensure welfare reform."

**Mr Elston:** I do not disagree with this, but it seems rather redundant—does it not?—bearing in mind that we are talking about the SARC project, if I can describe it that, and it speaks to the issue of income adequacy, as well as other items, but certainly the income adequacy and systemic problems around poverty. I do not know that we need to repeat this as a recommendation. It does not take us any place further than what the SARC report or SARC project gives us.

**Mr Christopherson:** I think the only reason you see as a separate issue is that for many years the whole issue of adequacy as the absolute first step was so important that we just did not want to drop it and say it is included somewhere.

**Mr Elston:** But that is SARC, that is the whole point around the first step in SARC, that we are concerned we had not gone far enough for a second step and all that. The first step was taken, as was required by the report, and dealt with the initial problem of income adequacy, then the second stage was to deal more appropriately with the adequacy question. So I think this is pabulum. Nobody disagrees with it, but why are we recommending it when the SARC report, which we are endorsing for the government's further implementation, says precisely that.

**Mr Christopherson:** We will take a look at it.

**The Chair:** Maybe you could take it up in a dissenting opinion attached to the first point.

**Mr Elston:** One of the things you do not want to do is end up having a whole series of worthless clauses in the thing. If it is something that goes without saying, do not bother saying it.

**Mrs Sullivan:** Mr Chairman, I apologize, because I am just grabbing my notes from the previous discussion but our recommendation for the very first bullet point was more specific than the one that is here. This relates to the timetable and funding of SARC. Our recommendation was: "the government should announce in the 1991 budget a timetable for implementation of funding of the second phase of SARC recommendations." We have to be more specific on that recommendation, and we feel it speaks right to the integrity of introducing the next phase of SARC.

**Mr Christopherson:** Well, we hear your concern and we will look at it again, but I am not sure how much more room we have for movement there.

**Ms Sullivan:** Could you explain that?

**Mr Christopherson:** Explain that?

**Mrs Sullivan:** Yes.

**Mr Christopherson:** I said we would review it, consider what you have said, although I am not sure that we have a lot of room for change in our position.

**Mrs Sullivan:** I am not certain why. Could you explain why there would not be room for change?



**Mr Christopherson:** Because we feel that it is fairly far right now, from our point of view.

**Mr Elston:** Meaning that you do not want to mention second-phase funding should be provided in the budget, I see it. At least if you had a timetable expressed. Is that no, you do not want to have it in, or no, that is not what you intend?

**Mr Sutherland:** No, that is not a correct interpretation.

**Mr Elston:** So as a caucus, you are in favour of second-phase funding?

**Mr Christopherson:** As a caucus, we are in support of what we have here in front of us right now.

**Mr Elston:** No, no, no. That is not the question. You are being highly evasive here. All I ask is this: Are you in favour—

**Mr Christopherson:** Well, I am not on the witness stand.

**Mr Elston:** —of recommending second-phase funding in SARC? If you are in favour of it, tell us. If we are in favour of it as a group, then we should state it. If you are not prepared to go that far, just say you are not prepared to move to second-phase SARC funding.

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**Mr Christopherson:** I have said very clearly twice, and I will say it a third time, that we have heard exactly what you have said and we will consider it in a caucus forum. I am not prepared to make any changes to this without having a chance to talk to my colleagues, so we will take a look at what you have said.

**Mrs Sullivan:** With respect, you have already caused, and—

**Mr Christopherson:** Mr Chair, please, we are trying to be as co-operative as possible, and I can appreciate that more experienced veterans may feel that we should move through these things a little quicker, but we are moving as quickly as we possibly can and trying to make the process—

**Mr Elston:** David, we are not trying to do that sort of thing at all. Where I get a little bit of frustration is that we are pressed to do second-phase funding of SARC and the Treasurer, Mr Nixon, had to say no, because we had some problems. We moved a little bit further, sort of little bit by little bit. We had people who came in and said second-phase funding should be done, and the report of this committee last year was to the point of having certain things recommended that the Treasurer could not do. We were frustrated for that, and that is fair game, but that did not prevent the majority Liberal composition of the committee from going ahead and saying, "Listen, we believe that certain things ought to occur."

I know each of you people is in favour of second-phase funding. What is so difficult about us as a committee of the Legislature saying, "We think second-phase funding could be done"? It is up to the Treasurer and your executive council members to say, "Things aren't quite the way we want them to be, so we're not going to do what the committee recommends." It is not our job to do the executive council's business, and I know all of you are in favour

of second-phase funding for SARC, so why do we not say it? It is not asking much.

**Mr Christopherson:** And I have said that we will take a look at what you are saying and we will get back to you. We are not giving a definitive answer, yes or no, in terms of the arguments you are making, Murray.

**Mr Elston:** Yes. Okay.

**Mr Phillips:** We use the throne speech and the Agenda for People as kind of the blueprint that we assume the province has to fund one way or the other. In the throne speech, it does say, "We pledge to continue the reform of the Ontario social assistance system." We are using that—I am repeating myself—as the blueprint that somehow or other this is what the government is going to do, and the finances of the province are going to have to accommodate it. That is all.

**The Chair:** Can we move along?

**Mr Christopherson:** Next: "The government should consider that income adequacy"—pardon me, that is the one we were going to take a look at also. "The government should consider funding as a pilot project the Ontario SARC Network—Corporate Strategies for a period of two years."

**Mr Elston:** The presentation, obviously, was highly persuasive, but it seems to me—I raised this informally before the Chair came in—that when you have choices to make with respect to funding, and your choices are providing assistance at various levels of adequacy and you are also asked to develop or to give money to the Ontario Social Assistance Review Committee Network—Corporate Strategies, as you are all in favour of SARC anyway, why do you want this group outside of government forging ahead to spend government money when it could be applied to the STEP program or it could be applied some place else? Is this so integral to the government's planning that you would recommend that the Treasurer fund this particular item ahead of all other activities?

Again, I am sorry I did not hear the persuasiveness of their argument. It may be that it was so persuasive, but remember you have a lot of places where you are not going to move, and I am not sure that I, as one committee member, would endorse the particular funding of this item ahead of everything else.

**Mr Christopherson:** Okay. We will look at it.

**Mrs Sullivan:** So are you prepared to yank that?

**Mr Christopherson:** No. We are going to take a look at it. You have raised some interesting points and we will consider them.

**Mr Elston:** I understood it was privately funded before, and if it was privately funded before you do not necessarily want to replace that funding source.

**Mr Christopherson:** Next on the sheet: "The committee was impressed by the comprehensive nature of the submissions made on behalf of the disabled community. Support for the recommendations made by these groups is very strong."

"The recommendations made by the committee are as follows:

"Social assistance reforms should continue. Unless changes are made to the principles underlying the system, there will continue to be dramatic cost increases without corresponding benefits in the lives of individuals with liabilities.

"The government should consider extending the assistive devices program."

**Mr Elston:** On that point, just because there is a committee already in existence, it formally exists inside the assistive devices branch in the Ministry of Health and actually has members of the advocacy community involved in it as well. They are doing that actively now and have been, over the past—well, for as long as I have been involved with it. I think they started in the days of the Conservatives when the assistive devices program was first funded.

Asking the government to consider extending is not very effective because each budget year the Minister of Health will come forward asking for more dollars in that regard. "Should consider extending" is not very persuasive to me, when they are already doing it. If there was no committee even looking at it and there was no possibility of extending, I would say fine, this is a good first step. But I know it is ongoing all the time because it is an existing program, has a history now and in fact I am sure—

**Mr Christopherson:** What would you prefer to say?

**Mr Elston:** I think if you were suggesting something as a committee and you found that there was a deficit of funding in a particular area of assistive devices, you might recommend, for instance, that the Treasurer consider funding X programs in which there was something that was a real problem in the community.

If, for instance, it was a staged program and you found that item A was only going to be available in seven years at the current rate of phasing or whatever, you might recommend that item A be funded immediately or be considered for funding this year out of phase or out of sync from what had been planned. That has to be very specific in these ones because you are not talking solely programs that are the responsibility of the Treasurer, but it is basically generated through requests for more funding from the ministry itself and he is not going to generate a request from a ministry on his own although he might be sympathetic if it generated that request. Do you understand what I mean?

**Mr Christopherson:** Oh, I hear what you are saying, yes. I understand fully.

**Ms M. Ward:** A question I would have is, are the appeals generally successful from the Ministry of Health for the funding?

**Mr Elston:** Yes, they have been progressively. I was there when we started out a fairly detailed phasing program. The phases tend to get extended now and again, but there have been progressive extensions over a period of years in line with what had been established as, in my day, a much shorter time frame but which has generally expanded. What the last one was I do not know. I think hearing devices were last added, and I could be out of time now, but they took longer to get in the field but they came.

If there were some places that you felt we should be adding an assistive device coverage that is not now in, would be more aggressive and probably more to the point for recommending to the Treasurer.

**Mrs Sullivan:** Just on the same point, I have a problem with this entire section. I will go back to some of the things that I was talking about this morning. The budget is the document that outlines the funding for the principles and priorities of a government within a given period of time to show how that government is going to carry its mandate forward. One of the things that I am concerned about with the recommendations that are coming forward is that they are very nebulous. They do not put the time frame or the priority that is being evidenced in other documentation that has come forward, whether it is the throne speech or the Agenda for People or whatever. The urgency that has been addressed in some of those other documents is not addressed here in any kind of a selective way.

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We are not the Treasurer; this committee is not the Treasurer. The Treasurer can see from this committee the best advice that is coming forward relating to the implementation of the principles and ideology that have been expressed in other documents. Indeed there may be an objection from the opposition to the funding of those principles and ideology. That is something that the opposition has the freedom to do. But if we can come to terms with certain of those priorities and funding issues, then let's come to terms with them.

What I see here as I look at this section on the disabled is something that is really problematic, because when we look at the kinds of groups and agencies that came before us in terms of presentations that were made, they were speaking of many of the issues that have been discussed in the SARC report, that have developed as a result frankly of changes as new methods of implementation of delivery programs have been identified, through changes in SARC. As new issues have been identified, they were clearly presented before us.

So when I look at "The government should consider extending the assistive devices programs," that was not what we heard. It is not where I had the sense that there was a movement of committee opinion on. Extending the assistive devices program can mean anything from providing needles for diabetics to providing some of the things that were being talked about, like extending the program that included clothing for people who had to use crutches.

Murray has already talked about the committee that exists that reviews the assistive devices funding and the inclusion or exclusion of facilities that are in it and the services that are provided. But in making the recommendation, it seems to me that we should not be saying "should consider extending." We should be saying "should fund specific extension of the assistive devices programs in these areas." If those areas relate to programs that would assist the disabled to move into the employment community, those are things that were addressed that I felt that informally there was consensus on. If this thing is going



work, if the committee is to have a legitimacy, it should become far more precise.

I also look down to the home care issue in the same chapter and I see the word "spouse." It springs out. I have a lot of people in my constituency who are delivering home care to the disabled and it is not the spouse only who is delivering; it may be the son, the daughter, the son-in-law. Why are we limiting through a word a recommendation for funding—remember this is a budgetary commendation that we are making—by limiting it to a spouse? If we are going to take this recommendation seriously, we have to address the family member.

You should know that in the last session of the Legislature there was a private member's bill on the floor of the Legislature—as I recall, it was defeated—on this very issue. Great debate surrounded it. I cannot remember—perhaps the clerk could see where the votes came—but there was certainly concern raised in that debate relating to the caps on the system, the policing of the system, taking advantage of the system if that home care to the disabled is in fact compensated through government. In my riding it is a problem; in lots of other ridings it is a problem.

The question is, how does government come to terms and what do we request of the Treasurer in saying: "Will you fund X? Will you fund a pilot project? Will you fund an entire program? How are you going to limit it? What is the recommendation going to be that is not going to be so road-brushed that it simply will not be touched?" I guess that is where I am coming from.

The other question in the last paragraph is, "The government should investigate the issue of overprescription of drugs to the disabled." This was a matter that was raised by a group. I concur that it is an issue but it is not a budgetary issue. It goes right back to questions relating to the direction of the health professionals in monitoring questions of prescriptive drug uses. I do not see this as a budgetary recommendation.

That is where I am coming from and I think my colleagues are coming from the same position. We want to be specific things and we will be prepared to support very specific measures when they are made specifically in relationship to the upcoming budget and when the recommendation relates to funding decisions that the Treasurer is going to have to come to terms with. Budgets are choices.

**The Chair:** Is there any comment? How are we proceeding?

**Mr Christopherson:** I think the last thing we touched on was assistive devices, and there was concern surrounding "should consider extending" and points raised there. I think that is where we left off.

Next: "While funding is an important issue, there may be cost savings if the possibilities for saving money without hurting individuals are explored. Disabled consumers could be consulted in a more meaningful fashion than the ministries of Health and Community and Social Services have done up to now."

**Mr Elston:** You know, of course, that is a bit of a partisan shot at the costs. You may not have thought of it in that sense, but that is what that is. We are the party that

was in charge of Health and Community and Social Services. We did a fair bit of consulting, but that says, "No, you didn't do anything that was real," and I regret that. It may have been a bit of a slip, but I regret that I certainly am not able to join with you in supporting that. That is enough, of course, for us not to sign the report.

**Mr Christopherson:** I think that probably was part of Mr Stockwell's submission to us that came in late last night. No, I hear what you are saying and we will certainly take a serious look at that.

You raise an interesting point, though, one that I might just expand on. Let me just highlight this. When you talked about signing the document—and again we have done the usual things and researched this and talked to people and checked the previous documents, etc, and I am just going to lay it out—as I understand it, what will probably happen, and I truly ask you to clarify it for me if I am wrong, is that where there can be agreement by all the parties, it is so noted, recognizing the fact that, without the Tories here at all, that may be impossible, regardless of what your caucus and our caucus might agree on.

Other than that, the report itself, in a majority government situation, is usually not supported by the opposition parties and dissenting opinions and dissenting recommendations are part and parcel of the overall report. So please clarify that for me. When you talk about, "That may be enough for us not to sign," is it your intention?

**Mr Elston:** No, I basically said, "Listen, if that was in there, I certainly would not endorse it." It goes that far and it may have been more of a figure of speech. I understand how those reports are made and the fact that the chairman will present on behalf of the committee the result of it. But I just said, with respect to that, that you cannot reasonably—

**Mr Christopherson:** No, I hear that. I was getting to the signing of that in itself.

**The Chair:** Given that we have a lack of representation from the Conservative Party here, it looks as if, unless that changes, there will be no unanimous consent on anything.

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**Mr Christopherson:** We are cognizant of that too. We want to be as fair as possible and make these things as comfortable for everybody as possible, but it really, really hinders us as the majority vote on committee when one of the parties has decided not to participate at this point for reasons it considers justified. I think that is part of the reality that you see as well as we do.

Moving on then to the next point, there was already a comment from Mrs Sullivan, but I will read it again to enter it into the record:

"In many families, a non-disabled spouse acts as both a care giver and a wage earner. A rate increase to lessen the strain on these families should be considered, if only because of the enormous costs spared the health care and social services system by the unpaid efforts of such couples."

There was a point made as to why it is just the spouse. That is one comment that I have heard and made note of.



**Mr Elston:** Perhaps what we could do is just change it quite quickly and say, "Many family members act as both the care giver and the wage earner for disabled family members." That clarifies it quite quickly, I think, and it probably covers most everything.

**Mr Christopherson:** Yes, that is fine.

**Mr Elston:** It is a minor change in terms of the words, but an important one.

**Mr Christopherson:** We will not get into the legal aspect of what is a family member. We will just leave it at that.

**Mr Elston:** I think it is fairly wide.

**Mr Christopherson:** I only know that it is an interesting point because of the unrelated family members bylaw and what happens at the local level, etc.

Anyway, next point: "The government should investigate the issue of overprescription of drugs for the disabled." The point from Mrs Sullivan has already been that her thought is that that is not a budgetary issue and I have made note of that. We will take a look at it.

Next:

"The social impact of housing on the people of Ontario is disturbing to the committee. It is the committee's request that housing be made a priority for the new government.

"Therefore, the committee recommends that:

"Housing policies and housing supply programs must be addressed from the perspective that housing is a right.

"Beginning in the 1991-92 fiscal year, the government should budget for a non-profit housing program to succeed the Homes Now program that would be the start of a continuing non-profit housing initiative.

"Ownership housing developed on government lands must initially be affordable and measures should be taken to safeguard the long-term affordability of such housing.

"The government should consider that increased non-profit housing allocations will generate significant employment in the manufacturing and construction trades sectors. Moreover, building during a downturn will result in a larger number of units being constructed since costs are lower.

"Antidiscriminatory policy should be mandatory for the receipt of funds for non-profit housing projects. Affirmative action policy should be introduced to meet the housing needs of 'disadvantaged' people."

New paragraph: "The committee is in full support of assisting newcomers in their—

**Mr Elston:** In relation to the housing section, I raised the issues around—actually it is a point close to Mrs Sullivan's, but my point this morning was that when you take a look at all the series of recommendations that were brought forward in our list in this document prepared on 4 February or 5 February, there was a series of pages of fairly specific items that talk about, for instance, in one case, the 20,000 non-profit housing units which of course jibes with An Agenda for People.

Then there are other programs—Let's Build Ontario is one I mentioned this morning—and perhaps we should be talking about specific items that talk about areas where

there were opportunities in the housing area to affect more than just the supply of housing. For instance, it also affects the supply of jobs. My sense would be that if there is an advantage in our recommending anything on housing, we should try not only to advantage the supply of housing but also the supply of jobs and work for people in the province.

**Mr Christopherson:** I think that is there, Murray.

**Mr Elston:** You think it is here?

**Mr Christopherson:** I believe that is in the second last point: "The government should consider increased"

**Mr Elston:** Okay. I realize that it says something generally, but I just said, "Should we not consider some of the specific program recommendations that have come forward to us rather than just generally saying housing will provide employment?" I was just paraphrasing what I said this morning and not listening to what you had read as part of that.

There are so many recommendations. Can we stop the presentation to the Treasurer on the basis of three or four general observations? I guess that is really what I am suggesting. Is there not any specific recommendation that was brought forward to the committee that would merit interest from us? Because there is a lot of—

**Mr Christopherson:** We will take a look at that.

**Mrs Sullivan:** I want to go back to the same discussion, I suppose, that we had on the housing issues this morning, relating to what it seems to me is a fairly wide approach to the question of the provision of affordable housing, given inclusions in the throne speech, in ministerial statements and in the Agenda for People which included very specific commitments to the construction of 20,000 non-profit housing units a year, to 10.5% mortgages, to \$1.4 billion in mortgage funds available at the government's long-term cost of borrowing. None of these recommendations, platforms, commitments, have been addressed in the material that we see before us from the government caucus.

Once again I see a lack of specific recommendations relating to the budget year that this committee should be putting before the Treasurer. It is the Treasurer's choice to determine whether or not the 20,000 units will be part of his budgetary program, but once again the budget document and the integrity of the budget document relate to the commitments that have been made. We do not see that kind of very specific recommendation included here in the recommendations of the government caucus.

**Mr Christopherson:** Next paragraph.

**Mrs Sullivan:** Could I just ask, are the government caucus and the parliamentary assistant prepared to come back with more of a specific recommendation?

**Mr Christopherson:** We are prepared to consider very seriously what you have said, and we will caucus on it so that all our members, as you would do, will have a chance to have some input into any changes that we might agree should be made. I think that really is fair. It is certainly sincere, and it is the only thing that I can do right now as our spokesperson without having a chance to go



back to my colleagues. I am making notes; so are my colleagues. We are listening very carefully to what you are saying and will consider it and get back to you with a response.

**Mr Phillips:** On a slightly different matter, I assume that we will be dealing with infrastructure under another heading somewhere—"Construction" or—because I think a lot of housing people said infrastructure is related to housing. I assume that will come in another package of recommendations.

**Mr Christopherson:** We have more recommendations coming, so anything here does not mean that it is not being included. It just means we may not have that exact wording hammered out yet.

**Mr Phillips:** Fine. I just do not want to lose the opportunity because I think that was—so it will be dealt with back under "Construction" or—

**Mr Christopherson:** I cannot specifically tell you something will or will not appear later, except to say to you that we have still got a fair distance to go, yes, and another document to present to you.

**Mr Phillips:** Okay, because that was a big part of the speech from the throne and the—

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**Mr Christopherson:** Next paragraph: "The committee is in full support of assisting newcomers in their efforts to integrate into the community. After all"—we had a wording change there that does not show—"much of the history of this country"—perhaps I could ask the Liberal caucus to note that. It is "much of the history."

**Mr B. Ward:** I do not think they heard.

**Mr Christopherson:** I am assuming they are hanging on our every word, as we are theirs.

"Therefore, the committee recommends that:

"The government of Ontario should re-examine its funding on settlement and language training services with an attempt at enhancing service.

"The government of Ontario should actively pursue an agreement with Ottawa to ensure that an adequate range of settlement services and language training is provided to newcomers to the province.

"As the province renegotiates the Ontario agreement on training, efforts should be made to explicitly advance the province's multicultural strategy. In addition, the agreement should recognize and enhance the role of non-profit community-based organizations in the face of continuing privatization.

"The committee was moved by the presentations made on behalf of interval and transition houses. The crisis faced on a daily basis by these groups must be addressed immediately. To avoid action would mean jeopardizing the safety and wellbeing of women in this province.

"The committee recommends that:

"The funding formula for interval and transition houses should be reviewed with an attempt to institute block funding.

"The committee was impressed by the presenters' attempts to deal with the issue of the growing costs of the

provincial health care budget. The committee agrees that the competing demands on the health care budget call for more innovative and accountable management.

"Therefore, the committee recommends that:

"The government should increase its support to community-based models of health care service delivery.

"The government should initiate community discussion around the limitations of health care spending, such that direction is provided to politicians, health care professionals and other public decision-makers.

"The government should consider fairer compensation to nurses a priority.

"Some form of local project stimulation and support is needed in Ontario—this fund could be administered through a coalition of partners and advisers in conjunction with the provincial government, or by a coalition—a healthy communities network.

"The government should examine the role and benefits of the pharmaceutical industry in terms of its overall industrial strategy. It has a great deal to offer in terms of enhanced manufacturing ability, augmented R and D presence and international competitiveness."

**Mr Phillips:** It is more in the revised body of the paper that I am interested. The reason I raise it now is that I still have some concerns about the numbers that I would still like the staff to investigate. There is so much paper here; it is driving me nuts.

It started with the 55% of the Health budget, and I know I have—it is page 23 of Revision 1. I am not sure you want to get into the text of the document today, but I just thought we should use the time between now and tomorrow to get the numbers. This is "Health," Revision 1, page 23 at the top. These are the Ministry of Treasury and Economics numbers. For 1989-90 it shows hospitals at 43% and this document shows 55%.

**Ms Anderson:** I took the numbers from Dr Barkin's presentation where he had 55%. I can see how we can reconcile that to the—

**Mr Phillips:** Will you? I would like to know that. In the document, it says, "There was general agreement among presenters that the health care system did not require a greater proportion of the provincial budget." I am not sure I heard that. Hospitals said they needed more money. Nurses said they needed more money.

**The Chair:** No, the nurses said they did not need any more money.

**Mr Phillips:** The nurses: I guess that is the other thing. I think the nurses said that their proportion of the budget was 25% and the hospitals said it was 40%. Can we go to the authority on this, the Ministry of Health, by tomorrow and get the right number? It seems really unusual to me to have two parties bargaining over billions of dollars and not knowing within 15% who is right. It is a recipe for conflict.

The reason I raise all this is because there is—not in the recommendations—an implication that there is lots of money in Health, that it is just redistributing it. So far I have talked to every participant in it. They may say it is redistributing it, but they need more and somebody else

needs less. It is a vicious circle that one goes in and in the end I think you are going to find that everybody needs more, everybody wants more.

I would like for tomorrow a reconciliation from the Ministry of Treasury and Economics that says hospitals are 43% and the Ministry of Health that says hospitals are 55%. Who is right would be interesting.

Second, the Ontario Hospital Association says hospital nurses are, when you include fringe and salary, I think they said 40% of the budget and the Ontario Nurses' Association said 25% of the budget. That is important, at least to me, because of the preamble.

**Mr Christopherson:** Was there not a gap? They talked about \$3 billion or \$4 billion, a huge dollar figure that they said was really—

**The Chair:** And the numbers: They also cast aspersions on the number of people who the OHA says worked in the hospitals in the different categories of nursing and support staff, and they wondered where the—it was somewhere in the neighbourhood—the OHA said there was X number of people working and the nurses came back and said that is not possible.

**Mr Phillips:** I think, for this committee's sake, it would be very good to know what is the reality there.

**The Chair:** I will try my best to have those numbers for you tomorrow.

**Mr Phillips:** Remember I said, "Can we get the information that was promised to the committee?" The Ministry of Health said they could send us their estimates. Remember that? "We are working on it." The Hansard will show that.

Second, we had the questions of Treasury on the very first day and it said it would provide the answers to them. We are now 25 hours away from a final report, and I would really appreciate, personally, those data for tomorrow.

**The Chair:** We will continue to try to get it. It is an ongoing process with us. We are trying to get the information in. I would like to guarantee success. We will do our best.

**Mr Christopherson:** We are supportive of that. I would just say that we would offer our support for the Chair that we really can get that information.

**Mr Phillips:** Does it not strike all of us as odd that the biggest single item on our budget is 34%, and we have one part of the government saying we have 55% and another part in this graph saying 43%?

**Mr Christopherson:** There are a lot of strange things you find when you get in the driver's seat.

**The Chair:** Remember, we are new here and we are finding a lot of things strange.

**Mr Christopherson:** The next paragraph:

"The committee is very concerned about the continuing problems facing the agricultural sector. The high interest rate policy of the federal government, combined with consistently low commodity prices throughout the 1980s, has forced more farmers out of business and placed an added burden on those who have managed to survive. The

current situation provides little incentive for young farm and is undermining the fabric of rural communities.

"The committee would like to stress the significant relationship between the \$40-billion-a-year agricultural industry and the health of Ontario's economy as a whole.

"Therefore, the committee recommends:

"The government should fully understand that interest rate assistance is vital to farmers. The OFFIRR model provides a good starting point for a detailed discussion of design of a financial assistance program.

"In the absence of core funding from the federal government and in the light of assistance programs instituted by other provinces, Ontario should explore a farm credit policy that ensures equitable access to affordable credit.

"The government should explore joint initiatives with the Farm Credit Corporation, provided that the federal government is prepared to make a financial commitment.

**Mr Elston:** You just talked yourself out of that one.

**The Chair:** Would you explain?

**Mr Elston:** Farm Credit has become the next thing another chartered bank. Most people are just right out of business in terms of helping farmers the way they used to and they now ask for application fees virtually.

**The Chair:** Farm Credit?

**Mr Elston:** Farm Credit, the federals really in a way did not do very much work on the farm credit end of things. They have a structure now that really has strayed a long way away from helping the farm owner who used to go to them as a last resort. They are virtually a chartered bank in a lot their lending practices. That is probably been a little bit harsh, but I tend to see that. I tend to feel that way about it when I see the change in mandate of Farm Credit.

"Provided that the federal government is prepared to make a financial commitment." It is a nowhere recommendation because you know darn well that the feds are on that path where they are just slashing everything. They are prepared to give up a whole series of farm support programs and farm organizational programs, including supply management, if it does them a budgetary service to do so. That is why they are bending over backwards to give away certain things in the GATT discussions if they can.

1510

I am concerned. I guess you can put it in. It is not going to hurt to put it in, but it is not going to help anybody as soon as you put "provided that the federal government is prepared to make a financial commitment" because it is not. I think it is as simple as that.

**Mr B. Ward:** This federal government.

**Mr Elston:** Yes, the current federal government. You are not going to see a new one for another couple of years anyway, and I know what your preference would be, but that is not necessarily a sure thing these days. It may be that the federal authorities, in any event, will not be able to do stuff.

**Mrs Sullivan:** That is also why the Ontario Federation of Agriculture recommendations were shaped the way they were, because it understands the way the Farm Credit



work and is looking for specific farm credit initiatives in Ontario, as are being done in the Saskatchewan and Alberta models, but it is looking for very specific commitments and funding initiatives in Ontario for Ontario. They were not looking for exploring joint initiatives related to the FCC.

Before we leave agriculture, I also have some concerns once again relating to the specific nature of the recommendation relating to the Ontario family farm interest rate reduction program. It seems to me that the committee ought to be recommending that an interest rate reduction program be included in the next budget. That is where our commendation should be. We have heard indications relating to the targeted nature, and those are decisions that the Treasury can make, but the OFFIRR model provided a good starting point for discussion. The crisis is now. There is an urgency on this issue. The interest rate problem is a symptom of the longer term farm credit problem. This is a matter that has to be looked at with some urgency in the next budget.

**Mr Elston:** Having said that about agriculture, can I pop back, just for a moment, to the health care section?

As I was rereading your second bullet point, "The government should initiate community discussion around the limitations of health care spending," I got the sense all of a sudden, as I read that for about the third or so time, that somehow it starts to make me think about rationing or things like that. I do not suspect that is what you intended, but if I read or misread that incorrectly myself, knowing where your organization, your party is on this, that sounds like a discussion towards saying only so much is going to be available for people. I think that should be clarified.

I am not prepared to go into a rationing discussion, nor am I prepared to allow the officials at Treasury who might be to get into discussion around that, to think that this committee is suggesting rationing of health care should begin.

**Mr Christopherson:** No, I think I can say—

**Mr Elston:** Can you work on something that might be just a little bit clearer to make sure we get taken away from that misinterpretation?

**Mr Christopherson:** Along what lines?

**Mr B. Ward:** For clarification, could you define what you are interpreting as rationing?

**Mr Elston:** As soon as you start saying "community discussion around limitations of health care spending," some people have talked about implementing, and in fact they have implemented, some user fees. They talk about implementing user fees in Quebec as an effective way of limiting people's access to a health care dollar. I do not want—at least I would not support the recommendation that we start talking about those sorts of measures. I will tell you, there are enough people who could read this that they would make it look like this committee was telling the Treasury, "You should look into having means by which people's access to the health dollar is restricted."

**Mr B. Ward:** By rationing, you are not saying that we only have so much but that we implement user fees? Is that what your party—

**Mr Elston:** That is just a variation on a theme of restricting people's access to health care. Right? People will make the argument—a doctor, for instance, came to me not that long ago, again knowing my past history and everything, saying, "Well, if you just allowed us to charge those people \$5 or \$10 every time they came to us, that would keep them away from the office." Of course, if the government ever did that, then people would blame us for any problem if there was somebody who did not get enough health care, I think understandably.

This to me is so close to the subtle types of messages I got in letters from people during the extra-billing debate that I am perhaps more sensitive to the writing of this than others might be, but this could be seen to be a clear signal that the government wants to put an end to free or universal access to health care, and I do not think that is the message you want in this; certainly not one that I would endorse.

**The Chair:** Evelyn was very clear that that is not—

**Mr Elston:** I know.

**Mr Christopherson:** I think we are open to ensuring that you have the comfort level you are looking for, because I would not want you not to sign the document.

**The Chair:** Have you got a wording that you would like to see?

**Mr Elston:** If I understood exactly what you are trying to tell me here in this sentence, that the government could initiate community discussions around limitations of health care spending—what do you mean there? Are you capping it? Are you just saying each person can have access up to a certain level or do they have to pay a fee? I know that you probably do not mean those, but what is it that you are trying to tell me?

**Mr Hansen:** On page 23, the second paragraph, I think this is where actually we have come up with this particular recommendation.

"There was general agreement among presenters that the health care system did not require a greater proportion of the provincial budget but that the money should be managed differently. The Ministry of Health indicated that they had instituted new steps for improved management of health care within the ministry and that better management practices are being instituted in the hospitals with, for example, a shift from in-hospital care to more day surgery."

**Mr Elston:** Of course, that has been happening over the last seven or eight years, not just with us. But that talks about proportion. Remember, when people talk about proportions, we are talking about maybe 34% of the budget as opposed to getting 40% of the budget or something, but they do not talk about the fact that it is limited to the current level. I think \$15.5 billion is this current fiscal year's spending on health care. They do not mean to tell you, however, that they want this stopped at \$15.5 billion from now on.

It is just the word "limitation." I read it in the more sensitive fashion than you do because when we were discussing the extra-billing issue, when we were going out and dealing with all of the dissenters—and there were a number of them—around that issue, every word that you

used had a whole series of connotations that could get, in those days, me in trouble.

**The Chair:** Could you live with something or could the committee live with something—

**Mr Hansen:** Is there a word there you want in?

**The Chair:** —like “Government should initiate community discussions around the maximization of—”

**Mr B. Ward:** We will take it under advisement and talk about it tonight. We understand where Mr Elston is coming from.

**Mr Phillips:** Go back to point 3 on page 23. I think I would want to see the evidence of that. I think the Ministry of Health, when it came in, could not tell us what it wanted, so I do not think it would necessarily agree with that. The OHA would not agree with it. The doctors would not agree with it.

**Mr Elston:** This is the greater proportion.

**Mr Phillips:** Yes, with the statement “There was general agreement among presenters.” The nurses I think suggested it, but until I get some idea of the numbers—I just think it is on that basis, as you are pointing out, that you put that in, ie, that, “Well, money is not the question; it is divvying it up properly”—I am having real difficulty in buying in to that.

As I say, if you remember when the minister was here, I was asking, “How much money do we need to accomplish your objectives?” “Well, we are working on that. We will try to give you estimates” and what not. So I think Mr Elston has his finger on a key issue. If, by agreeing to that wording, we are agreeing that the money is fine, it is just the allocation, I think we are going to be fooling ourselves, personally.

One other way out is, there is the Premier’s Council on about three things—health, wellbeing and social stuff—and whether it should not be that this encourages that council to continue its discussions around the most effective use of the health care dollar, because that is really its mandate, I think, what is right there. So maybe under advisement you would consider that.

1520

I think what the government members are looking for is some way to have broad consultation on how to allocate, how the dollars will be spent. I am just saying you have that vehicle in place now. It used to be called the Premier’s Council on Health. It is now the Premier’s Council on Health and a couple of other things. Rather than initiate community discussion around the limitation of the health care spending, it should continue its dialogue using the vehicle of “to ensure that health care spending”—I do not like the word “limitation” because it assumes that, as I said before, there is enough money in the system already to meet the goals, and I think you are going to find—I will be very surprised if you do not find—in the next six months that is not going to be the case. To accomplish the goals you want, it is going to be very difficult, if not impossible, to keep it at the 34% of your budget.

**The Chair:** So there are basically these two areas that we should revisit.

**Mr Christopherson:** I am sorry, I had to step out just a moment. The areas to be revisited are in the draft in the proposals we are going to make.

**Mr Elston:** Both.

**The Chair:** Both, page 23, second paragraph, and second point.

**Mr Christopherson:** And the second bullet also is still unclear. Maybe my colleagues are a little confused now, but I thought it was fairly straightforward. And was the way it was left? Okay.

**Mr Elston:** You are not as concerned then as I am about the message be that we are suggesting a limit or a cap on health care spending? I mean, I am. I think maybe if you take it under advisement you can reconsider what we are suggesting because that certainly is a long way away from the position of your party. You have been a long time in favour of making sure that universal health care exists, and if you are concerned about a discussion in the community about limiting health care spending, that is a remarkable change of status for your organization.

**Mr Christopherson:** I think any expression of disapproval in the province along the lines of the increasing health care costs is not to be considered surprising by anyone. I did not see this, in my mind, as being any kind of a battle, but we have heard what you have said and we will take a look at it. If it needs to be clarified, we will.

**Mr Elston:** My experience, though, is that there are organizations that will say that this government’s stance to look at limiting health care spending is a flag which will sound a rallying cry for a lot of people, when I do not think that is where you are at, or at least I would be doggedly surprised if that is where you are at.

**Mr Christopherson:** We will take a look at it.

**Mr Elston:** Sometimes when you get to Treasury and you start talking the language that is talked internally in the Treasury organization, you quickly become harder to guess to the words. But the community advocates in particular positions see those words and they hear them and they respond to them, and I do not think you need to struggle at the moment with everything else happening.

**Mr Christopherson:** Okay, let’s be clear. There are many of us, although we are green provincial politicians who have spent a good number of years on city and regional councils and understand the responsibility of passing progressive legislation and still working with Treasury people in trying to have good budgets and be able to give the people, so I am not quite as frightened about our view as you are.

**Mr Elston:** That is not what I was frightened about. Your virtue is the least of my worries. You look after your virtue; I will look after mine. It is just that I do not want this document to say something that is a long way away from where you know your organization is.

**Mr Christopherson:** I appreciate truly your concern for ensuring that we do not send out mixed messages.

**The Chair:** I think the last page here, where we—



**Mr Christopherson:** I think we have completed this document, as I understand it, because the last thing I have seen is a number of notes I took after listening to Mrs Sullivan. So what I would suggest, Mr Chair, with the time remaining, is that I think perhaps we could look at trying to tackle the draft that came back to us from the researchers.

It is our intention, I will tell the Liberal caucus, to have in place the balance of our first round of recommendations by the end of the week, when that is completed, as much of the responses to that as we have talked about today as we can have ready for the morning session, with every intention obviously of wrapping everything up by tomorrow afternoon. So if there is agreement, perhaps we could start looking at the report, having thanked the researchers for working around the clock to provide it to us.

**Mrs Sullivan:** Once again, I have to apologize, because I had to make a phone call to a constituent and missed discussion on the interval and transition houses. What I would like to suggest here is, once again, a firmer commendation that the 1991 budget for interval and transition houses should include block provincial funding, with implementation in the 1991 fiscal year. It captures the intent of the recommendation but makes it more specific.

**The Chair:** Is there any discussion on that?

**Mr Christopherson:** Could you repeat the exact wording so that I have it right, please?

**Mrs Sullivan:** The 1991 budget for interval and transition houses should include block provincial funding, with implementation in the 1991 fiscal year.

**Mr Elston:** Is that 1991-92?

**Mrs Sullivan:** That is 1991-92.

**Mr Christopherson:** So you have backed up to that point, is that right?

**Mrs Sullivan:** Yes.

**Mr Christopherson:** We went by it once and I am just confirming that it was not something I missed the first time; it is something you revisited and are suggesting that change.

**Mrs Sullivan:** I was on the phone.

**Mr Christopherson:** Oh, I see. I sure hope the Tories will not come in and do that. We will be here until next Thursday.

**Mr Elston:** Trust me, I think they are not coming back. If it looks like they are coming back, I will stand at the door and talk to them.

**Mr B. Ward:** Were they here this morning?

**Mr Elston:** Briefly.

**Mr Sutherland:** We will fill you in.

**Mr Christopherson:** There has always been some thought that there might ultimately be two parties. I do not know if anybody thought it would be the Liberals blocking the Tories at the door, but it might be a different variation.

**Mr Elston:** Actually, we put that in the form of a commendation.

**Mr Christopherson:** Mr Chair, the second draft, if you will, of the report itself on the pre-budget consultation process, first page: We are comfortable with that.

**Mrs Sullivan:** Sorry, can you just say that again? Oh, first page? You are comfortable with the whole thing?

**Mr Christopherson:** Yes.

**Mrs Sullivan:** Is that what you are saying?

**Mr Christopherson:** Yes, it is.

**Mr Elston:** I was concerned; it may be correct that there was a lack of expression of concern from other regions of the province—that is, other than Toronto, but we did meet in Toronto—and although we had the Association of Municipalities of Ontario, which is an umbrella group—it speaks in general terms and things—we say, “It places limitations on our ability.” It is not stated as—

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**Mr Sutherland:** Strongly?

**Mr Elston:** —sympathetically to the other areas, I think, as I would like to see it done, because it looks as if there was a problem on those other areas’ part, if you know what I mean. If we had gone to Thunder Bay, I am sure we would have had the northwest making presentations on northwestern Ontario’s need. If we had been in eastern Ontario, there would have been a presentation more specifically from eastern Ontario, because I know those concerns are out there, and I guess I would just like them expressed that we regret that we were unable to hear more about the regional needs in the province perhaps. But I thought this pointed a finger a little bit at those people who did not bother coming to talk to us, if you know what I mean. I am sure it was not even intended that way, but that is how I read it.

**Mr B. Ward:** So soften that up?

**Mr Elston:** Yes, be a little more sympathetic to the fact that we are in Toronto.

**Mrs Sullivan:** Just on the same point, I too do not like that particular sentence, because one of the things that we have to recognize is that as the capital city of Ontario, a lot of the groups and associations who are the umbrella organizations representing a point of view locate here. While their physical address may be Toronto, Ontario, they will be representing people from Sarnia to Ottawa, etc.

Additionally, in the list of sectors and so on which we did not hear adequately from, the tourism sector is one that was identified in the Treasury documentation as a sector that is facing great change in this economic climate. We had one presenter from the amusement sector of that industry, and I think that tourism could also be listed as one where there were not adequate presentations to the committee to come to a judgement.

**Mr Christopherson:** I think the points are well taken regarding tourism. It is an important one. On the question of the greater Toronto area, I think certainly if that is the message one might get from that language, let’s change it. But let’s recognize too that we made an initial decision that we would put funding in the budget, I believe, if we so chose to travel to other parts of the province and, for whatever reason, we did not take up that option that we gave ourselves.

**Mr Elston:** I have no problem with the fact that we chose to sit here. Well, maybe I do and maybe I do not, but

that is not the important thing. We sat here, and as a result we are not just quite as amenable to other people from other areas. Perhaps we could just take that whole section out and we could say, "The committee wishes to stress that although certain sectors and certain areas of the province were not represented at the hearings, we still continue to believe," and we can—you know, show that we are not just a Toronto-only province.

**Mr Christopherson:** No, I think that the emphasis should be on the fact that we did not facilitate that in some fashion.

**Mr Elston:** I do not know that you necessarily have to do that. I just was trying to save the ire of somebody in northwestern Ontario reading this, for instance, saying, "Boy, those people have the audacity to say we did not come and talk to them." So I am not pointing fingers here, other than just to say let's take that first sentence or that "consequently, the lack of expression" sentence out, and just say, "The committee wishes to stress that although certain sectors and certain areas of the province were not here," and so on.

**Mr Christopherson:** Good. We can support if the researchers want to take a look at that.

**Mr Elston:** Sure, exactly right because I think that is quite clear.

**Mr B. Ward:** Add tourism, right?

**Mr Elston:** And then you can add tourism, sure.

**Mr Christopherson:** Yes. Good idea.

**Mr Hansen:** One thing, the subcommittee, when we did meet—Mr Kwinter was actually your representative there.

**The Chair:** Mr Sterling was there for a little while.

**Mr Hansen:** He is not here today. But the thing is, we did discuss that on meeting in other parts of Ontario. We had an open mind that if anyone was wishing for us to meet in the north, we were willing to go there. So, it was not the point that Toronto was the only meeting point. I think that should be sort of expressed in the writings also.

**Mrs Sullivan:** Maybe you could just eliminate the second and third lines of that paragraph.

**The Chair:** We did have representation from Sault Ste Marie and from Ottawa in various groups, and Windsor, Niagara. We did have some representation, and maybe a phrase there: "While we did have some representation from areas outside of Toronto," we could just express the regret that we did not have—or something.

**Mr Hansen:** The other thing is that the largest population is down in this area, too, representation-wise—

**Mr Elston:** There are all kinds of reasons. I do not want anybody to think we are ignoring them, that is all.

**The Chair:** I think I understand that what we are trying to say here is that we do not want them to think that we are ignoring them because we were not there, but that we do have sympathy for their concerns and we will be looking to meliorate them or to do what we can for them. Is that good enough?

**Mr Elston:** On the second page, at the end of second line and going into the third, starting after "1991 will just read: "and that there will be slow, steady rate growth in"—I presume that we should either keep in "a" at the end of the second line, "a slow, steady rate growth" or we should just say "there will be slow, steady growth in 1992."

So you are going to leave the "a" in, or should we take out "rate of growth"? The fewer words the better: "There will be slow, steady growth in 1992."

**The Chair:** That is right. We have to pay for this the page.

**Mr Elston:** And by the word, when we translate it.

**The Chair:** Let's keep these words to a minimum.

**Mr Christopherson:** I think that is us for page 1.

**The Chair:** We are on page 2.

**Mr Christopherson:** And 2. Sorry, I confess to talking with my colleague about something coming up. On page 2, in the second paragraph, where it says "thus," I did not go into this in any great length, it was just reflagged by one of our caucus. "Thus, Canadian manufacturing plants had laid off workers in the early 1980s when they reduced the size of their operations, at least temporarily. In the current recession..." Does it flow? I mean, taking the other part out, adding that sentence, and then reading from the top of the paragraph, does that still flow?

**Mr Elston:** Take out the first sentence, too, is what you are saying, basically? Say "Canadian industry is now undergoing a restructuring process."

**The Chair:** I think what you started to say there was that in the recession of the early 1980s there was some downsizing of their operations, but it was more of a temporary nature, whereas the current recession is undergoing a restructuring process resulting in a greater degree of permanent job losses.

**Mr Christopherson:** The thrust of the three sentences is fine. It was merely, when we looked at it, did it read and flow properly and say what we wanted?

**Ms M. Ward:** Why not put the third sentence in place of the second sentence, just change them so that you are looking at the past and then you are going on to the current situation?

**Ms Anderson:** "Canadian manufacturing plants had laid off workers," then, "Canadian industry is now undergoing a restructuring process," then, "In the current recession."

**The Chair:** So it flows a little nicer.

**Ms M. Ward:** And take out "thus."

**The Chair:** I guess the main point there is the emphasis that this is a different kind of a recession with more permanent job losses.

**Mr Elston:** But if you reorder your sentences along that line, the "in the current recession" sentence also becomes a bit of a—you will have to clean it up a bit.

**The Chair:** I need a point of clarification, whomever has a dictionary here. I do not know if there is a word "learnt." I think it is "learned."



**Mr Rampersad:** "Learnt" is correct.

**The Chair:** It is? "Learnt." I'll be darned.

**Mrs Sullivan:** How many kids did you fail?

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**The Chair:** Are we on the record here? If you have other graded papers, by the time you finish seeing how many of the words have been misspelled by so many students in the same way so many times—

**Mr Elston:** That is how you create new languages.

**The Chair:** I'll say. You really begin to question your own—

**Mr Elston:** The real reason why our system is in such a bad shape is that it—

**The Chair:** I never failed anybody; they did it to themselves, self-destruction.

Okay, are we happy with page 2, with "learnt"? Have we all learnt something today?

**Mr B. Ward:** Staff is going to clean that first part up?

**The Chair:** Yes.

**Mr Christopherson:** The second paragraph on page 2. Getting back to Mrs Sullivan on the request for language at the end of the new first sentence regarding "expenditure decisions" and then a suggestion from, I think, Mr Phillips—although I may be wrong there, perhaps it is your own further suggestion—that it be "expenditure and revenue decisions." We have looked at it and considered it and we can live with the fact that "expenditure decisions" would rightfully be placed there. How is that, Mr Phillips? Are you shocked? When I tell you we will consider things, Mr Elston, we consider them.

However, the only thing we did have a concern about was that in terms of including the revenue decisions, and I think you were referring to revenue expenditures forfeited, the GST—we do not have a problem with that. I think it is legitimate in the body of the report to express that; that is a fair comment. However, we think that also there needs to be a recognition to separate that from the recognition that there is also reduced revenue overall that had nothing to do with decisions we took as a government or that the previous government took, but is a result of the recession. We can find language that accommodates that fact, we are prepared to accommodate your fair request that "expenditure decisions" be noted.

**Mr Phillips:** Maybe one way of doing it is to articulate the \$2.5 billion and just say it is a result of \$600 million in reduced revenue because of the recession; \$70 million in reduced revenue because of the GST decision—

**Mr Christopherson:** How much did you say?

**Mr Phillips:** I said \$70 million. I think that is what—

**Mrs Sullivan:** It is \$70 million in the current fiscal year.

**Mr Phillips:** Welfare costs, I think, are up \$550 million, and then expenditure decisions of \$1.2 billion.

**Mr Christopherson:** The problem is that I do not think it is that neat. I am not being argumentative—

Interjection.

**Mr Christopherson:** Hold on, hear me out, please. I do not think it is quite that neat, because you would also then have to include the windfall transfer that came in from the federal government. I mean, if we are going to be using actual figures in that sentence, which was not our intent, then we have to sit down and analyse everything that happened from the time that we started making decisions as a government to date. I just do not think it would be neat enough to be able to do that.

As I said earlier, we are prepared to accept the fact that expenditure decisions should be noted, and if you want to tie in the revenue decision, fair enough. But all we are asking is that there also be a recognition that part of the problem, a large part of the problem—my words—is the fact that overall revenue is down, regardless of any decisions.

**Mr Phillips:** But it is just the fact—I am not arguing one way or another—that there is a \$2.5-billion deficit. Revenue is down \$600 million over what we estimated as a result of the recession. It is \$70 million as a result of the decision you made; \$550 million in welfare costs; \$1.2 billion spending decisions. That is all. It is just taking the Treasurer's report and articulating what the 2.5 is; it is not one way or the other.

**Mr Christopherson:** Reference the Treasurer's report if you want, but to start getting into dollars—again, I am not saying what it would look like. The dollars are there, the figures are there. It is a matter of public record and your position on those is a matter of public record. But I just think that it starts to cloud up and muddle that sentence to the point where we lose the whole point.

The issue here is to show that we have a \$2.5-billion deficit. It was drafted in such a way originally that you felt there was some responsibility on the part of government that ought to be noted. We are saying we agree with you. However, in fairness, also acknowledge that when you are talking about being short on revenue, it is not just our decision. In fact, that is the smallest piece. All we are saying is, can we find a way to do that? Otherwise we will just leave it stand.

**Mr Phillips:** I want to get on the record again. The windfall is not a windfall. The corporate taxes were down, the personal income taxes were up. That was clear, and clear that it was coming. We will never agree on that, I guess. I am relatively sensitive about it.

**Mr Christopherson:** Well, we have a problem.

**Mr Elston:** I do not think you have a problem. It was just that he was sensitive about it. That still does not prevent you from saying that revenue items—you can separate the two if you wish. I do not know how you do it cleanly, but you can—

**Mr Christopherson:** But that is all I asked to do. If we do it by language, we have no problem. When we start getting into dollars—it is not that it will make us look any worse or better; it is a matter of I really think it will cloud this up, so there is where we start to get into a problem.

**The Chair:** Mrs Sullivan has had her hand up. This debate is getting a little free-ranging. I would like to bring it back to some focus.

**Mrs Sullivan:** I wonder if, rather than just saying "and reduced revenues," we might want to say "and reduced tax revenues, and expenditure and revenue decisions," or be more specific and say, "reduced corporate and retail sales tax revenues"—

**Mr Christopherson:** Do the former again.

**Mrs Sullivan:** Simply "reduced tax revenues, and expenditure and revenue decisions."

**Mr Christopherson:** Fine, we can live with that.

**Mr Phillips:** In the end, I do not think there is a dispute on the facts, that is all. I am just taking the facts off the sheet. Now, you may not want me to say it here, but I will say it elsewhere.

**Mr Christopherson:** But that is not the point. You are misrepresenting my point when you do that. My point was exactly what we just agreed to, and the dollars you are talking about are there. There is nothing to be hidden by putting it in or taking it out. It is a matter of extending that sentence to the point where you just lose what it—because really that is just a lead sentence, to set the stage. So you can take that position, but I would continue to disagree that that was our intention in not wanting to put the dollar figures in there.

**The Chair:** Since we have an agreement, can we move along? Are we happy with page 3?

**Mr Christopherson:** One more. There seemed to be a little confusion, after the language that was removed—six sentences underneath where we were just discussing—where it says, "Rates of increase in transfer payments to the provinces have been declining."

For some reason I had it noted as a problem, but it does not appear to be now that I look at it again.

**Mr B. Ward:** If I may, it is just that it is "reduced rates of increase in transfer payments," in the sentence before and then we repeat it again.

**Mr Christopherson:** That is right, thank you. I knew I wrote that down for a purpose: "as a result of reduced rates of increase in transfer payments." That is it, because I have a line that says "start." I was going to suggest that the new sentence after the language we have just crafted would begin with the word "provincial": "Provincial governments have had to find ways" or "Provincial governments, therefore, have had to find ways of meeting the shortfall." The preceding words are redundant.

**The Chair:** It will save translation costs. We are making this a one-page document. Are we happy with page 3? Moving along to page 4.

1550

**Mr Christopherson:** We are okay on page 4.

**The Chair:** Are you happy with the last sentence on page 4?

Interjections.

**Mr Christopherson:** We will certainly doublecheck it, but I did not have it flagged.

**Mr Phillips:** It would not be acting in bad faith if tomorrow we came in and have looked at some detail, because we just got this, like you—

**Mr Christopherson:** I think we have already said terms of our proposals, and yours when you asked for a chance to go back.

**Mr Phillips:** Thank you.

**Mr Elston:** On the page 4 stuff, I have a bit of a problem with the overall of this, because in another place—I am just looking for it quickly—there is a clause that says this is a homegrown recession. Some places I have read that, yet the homegrown part of this thing is not stated either in the first paragraph on page 4 nor in the "Causes of the Recession" thing. Maybe it comes later.

**The Chair:** Here it is. It is the first line on page 4: "Most forecasters agreed that the economy is in a recession that was principally homegrown."

**Mr Elston:** Yet we do not talk about the causes of the recession in the same way. "Numerous factors have converged to cause the downturn in economic activity including changes in the international economic and trade structures." Then we go on to talk about the American recession which makes us deeper.

**The Chair:** Would you feel more comfortable if it was put in there saying that the primary cause of this recession are the homegrown interest rates or whatever that—

**Mr B. Ward:** On the top of page 5, it begins to discuss that.

**Mr Elston:** I see, "responsible for the local recession." If I started reading, it just seems like I am putting that out of the way of the—

**Mr B. Ward:** Perhaps we should move that to after "Causes of the recession," move that paragraph word it in such a way that that has more importance than that "The onset of the American recession" kind of comes in after our recession.

**Mr Elston:** Maybe if that was their first paragraph and then you went on to say other factors have come together, maybe that is the way we could clear up any misunderstandings.

**The Chair:** Does anybody have any other comments about moving that, pro or con?

I think that might be the solution there, to take out the second paragraph on page 4 and merge part of the idea from that with the last paragraph on page 5 the second paragraph.

**Ms M. Ward:** Actually the idea that is in paragraph 5 is basically in that last paragraph on page 5, is it not?

**The Chair:** We could even leave paragraph 2 completely, I think.

**Mrs Sullivan:** Done.

**The Chair:** Why do we not take that second paragraph out? The second paragraph is basically removed.

**Mrs Sullivan:** Done.

**Mr B. Ward:** Wait a minute. It could be merged with the last paragraph on the page.

**The Chair:** Quite frankly, I would like to see it go completely.



**Mr B. Ward:** Is there consensus that we want to focus mainly on what caused our recession in Ontario and Canada and the primary cause is that it is a made-in-Canada recession?

**Mr Elston:** I just suggested that perhaps we could start off by saying, "While numerous factors have converged," then repeat that whole sentence and then say "circumstances peculiar to Ontario." If we bring the two of those as one sentence together with that first paragraph on page 5, we have got it all there.

**Mr B. Ward:** While they are doing that, perhaps they should look at—if you look at that very first paragraph on page 5, when you read it it does not flow very naturally, so you may want to punch it up or adjust it so that it flows a little more evenly.

**Mrs Sullivan:** Leave it all to drafters.

**The Chair:** Are there any other changes on page 5? I want somebody flip a page. Does that mean we are on page

**Mrs Sullivan:** I do not know if people want to talk about the first paragraph, but the second paragraph—I used that question as a result of a Globe article but I have since looked at the piece from Statistics Canada and in fact it does not do what the Globe said it did, so that sentence should probably come out.

**The Chair:** Okay.

**Mr B. Ward:** Which one is it?

**The Chair:** "Some observers, such as"—

**Mrs Sullivan:** "Some observers." That was an addition. In fact the material does not reach that conclusion when you see it in the original.

**Mr Christopherson:** Did the researchers have a chance to look at it?

**Mrs Sullivan:** Yes.

**Mr Christopherson:** And you concur with that and you put this in anyway, or do agree that what you said is correct?

**Mrs Sullivan:** I said it. That was my add.

**The Chair:** That was the add that we included yesterday.

**Mr Christopherson:** Yes, I realize that, but the researchers have said they have looked at the piece also. I am just asking which is it, that they agree with Mrs Sullivan that the piece did not say that or that they agree with what they put in, that it did say that.

**The Chair:** We told them to put it in. They do not disagree—

**Mr B. Ward:** Whether they agree with it or not.

**The Chair:** It is for us to put in or take out.

**Mr Christopherson:** I do not have the luxury of having seen it, so it is difficult for me to say. I would just like an objective—

**Mr Rampersad:** The article in the Globe and Mail came to the conclusion that the outlook was grim. The information that was put out by Statistics Canada listed figures for November. It did not actually give a commen-

tary as such to say that the outlook is grim. This was the conclusion of the newspaper in question.

**Mr Christopherson:** But is it a legitimate conclusion?

**Mr Rampersad:** It is a legitimate conclusion, I suppose, if you look at the whole range of figures. We were only looking at one month's figures in this case.

**The Chair:** I read that article and I thought that somebody had taken a tad too much licence with the numbers to be repeated here. Remember, the repetition here gives it almost, for some people, the word of gospel.

**Mr Elston:** So it is safer to take it out.

**The Chair:** Take it out. Oops, I am not supposed to make comments like that.

1600

**Mr Elston:** Actually, I do have a comment on the first sentence on page 6 as well: "uncertainty in Canada cannot fail to." I am not so keen on the negative sense of that. I do not know how to state it better. I would have said it yesterday if I could have, but I am not any more pleased with it today than I was yesterday.

**The Chair:** How about "might have"? We know that it is, but "might have" is a little mellower language.

**Mr Elston:** "Cannot fail" is fairly definite language.

**Mr Rampersad:** If you say, "In the long term, it is possible that constitutional uncertainty in Canada might have an adverse effect," you are hedging your bets twice.

**Mr Elston:** So you just say, "In the long term, constitutional uncertainty in Canada might have," what you suggest.

**Mr Rampersad:** If you add the phrase, "it is possible," you are just double-hedging your bets.

**Mrs Sullivan:** Is that not what we were all told in school, "Write tight"?

Interjections.

**Mr Christopherson:** I was not even here, neither were any of my colleagues. Shall we go down that road? I think we can live with either the changes proposed by Mr Elston in the first paragraph, or withdrawing either one. Mr Chair, we are comfortable with whatever you would like.

**The Chair:** Do we leave it in or take it out?

**Mrs Sullivan:** Leave it in.

**The Chair:** Then we will leave it in with the phraseology that—now the clerk is getting in on this. He said, "In the long term, constitutional uncertainty is unquantifiable."

**Mr Christopherson:** If it pays more over there, Todd, you should think about transferring. There is a future there for you.

**The Chair:** Are we happy with page 6, or where are we going?

**Mr Christopherson:** One thing that was brought forward by one of our caucus was, in the second-to-last paragraph, second-to-last line, the word "Canadian." In that context, should that be "Ontario"?

**The Chair:** Okay, the first line is "Ontario."

**Mr B. Ward:** Everything else is "Ontario," and all of a sudden we have "Canada."

**The Chair:** So "may boost output in demand in the Ontario economy"? If Ontario starts to boom again, then presumably all of Canada will. Shall we replace it with "Ontario"? Is there any problem?

**Mr Christopherson:** It was our suggestion that if you read it, the word really should be "Ontario," unless there is a point we are missing.

**Mrs Sullivan:** Leave out the modifier.

**The Chair:** It can just be "boost output in demand in the economy in 1992."

**Mr Christopherson:** You folks are really good at that.

**The Chair:** Okay, page 6, are we all done?

**Mr Christopherson:** We are, Mr Chair.

**The Chair:** Mr Stockwell, Mr Owens, are we okay? Shall we move to page 7? Are we happy with that?

**Ms M. Ward:** I had a question about that chart.

**The Chair:** The chart on the back of page 7.

**Ms M. Ward:** It says "% change unless otherwise stated" but is that true? Basically what I am saying is under "Real growth" those look like actual percentages, and the same under "Unemployment rate." That is not change in unemployment rate, is it?

**The Chair:** No, those look like absolute employment rates.

**Ms M. Ward:** Yes, that is what I thought. So I just wondered if that heading up there was true.

**Mr Rampersad:** We will check that.

**The Chair:** "Real growth" is percentage change; "CPI" looks like it should be percentage change; "Unemployment rate" looks like it is absolute; "Employment" looks like a change and "Retail sales" looks like a change. The rest are absolutes.

**The Chair:** "Partnerships," page 8.

**Mr Christopherson:** Mr Chair, could I ask, in terms of timing, what we are looking at today? The usual hours for the committee were set to be 10 to 12, 2 to 4. We extended it to make time for submissions so that nobody got left off. Our caucus has a fair bit of work ahead of us still to give you what we committed to tomorrow, which is our last day.

However, I do not want to leave the impression that we are trying to cut short committee time or the opposition's opportunity to raise or discuss anything. I put that forward, Mr Chair, only to suggest that the more time we have today to caucus, the more finalized work we can present to you tomorrow, recognizing that we also have a caucus meeting scheduled for noon tomorrow, so we are utilizing every minute that we can.

**Mr Elston:** We can take another look at the draft here ourselves and we can go and talk about that and you can

deal with your material and we can be prepared perhaps have some specific suggestions, if we have any, that could entertain.

**Mr Christopherson:** We have completed the work on this. There are a couple of things, but very minor. Technically, we are okay with what is here, with a few exceptions.

**Mr Elston:** You can go away and do your recommendations and then bring them back. We can go away and do the remaining pages.

**Mr Christopherson:** Yes, and tomorrow what we do is we will present to you in the morning the balance of our recommendations.

**The Chair:** Before we go, the writing team would like to have some indication as to what they should do with the recommendations that have already been discussed. I realize there are some with questions. Does the committee want the writing team to go back with the first draft and include the recommendations that have been done? Or bring back something tomorrow, including those that were looked at?

**Mr B. Ward:** Including ones that we have consensus on?

**Mr Elston:** I think that is almost necessary, if you are going to get into things—

**The Chair:** I think they should include the ones that we do not have consensus on and that we will see it with in the context of the document and consensus can be arrived at tomorrow. Recognizing that this document is incomplete and that nobody has really given the final word on it, we would like to give them instructions to include what we have here that is removing only what has been concretely decided. Is that okay?

**Mr B. Ward:** Just to clarify, what are they taking out of the recommendations? The ones that we have reached consensus on and putting in the outstanding items? Or are you giving them direction to do?

**Ms Anderson:** I would say putting in almost all the ones that are on your list here, because I am not sure how many of them have actually reached agreement.

**Mr B. Ward:** Okay, so put all the recommendations in?

**Ms Anderson:** Then they can be removed tomorrow when we will change as necessary, but at least they will be in then.

**Mr Rampersad:** It is also useful for the typing staff to have this in in batches. Otherwise they will end up with vast amounts to be done.

**The Chair:** Also, the last draft is easier to present than the first one because you push the button and present it. Do I have a motion to adjourn and to reconvene at 10 o'clock tomorrow morning?

**Mr Christopherson:** So moved.

The committee adjourned at 1609.



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## Official Report of Debates (Hansard)

Thursday 7 February 1991

Standing committee on  
Finance and economic affairs

Pre-budget consultations

# Assemblée législative de l'Ontario

Première session, 35<sup>e</sup> législature

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Consultations prébudgétaires

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 7 February 1991

The committee met at 1011 in committee room 2.

### PRE-BUDGET CONSULTATIONS

**The Chair:** We have a lot of work to do today. Can we begin?

**Mr Sterling:** Mr Chairman, before we begin proceeding through the report, could you report to the committee on whether the Treasurer has given you any further indication of whether he is going to provide those revenue projections?

**The Chair:** That request is in the Treasurer's office and I have no further information.

**Mr Sterling:** He has not communicated with you or the committee at this time to provide us with any more information on that?

**The Chair:** No.

**Mr Sterling:** I would just like to indicate that my party will be submitting a dissenting report to the overall report and I want to tell the committee that that will be done before the report is printed.

**Mr Christopherson:** On that point, Mr Chair—

**Mr Elston:** No, you cannot do a dissenting report.

**Mr Christopherson:** No?

**The Chair:** You mean I am going to have to write this report by myself?

**Mr Elston:** It is looking pretty grave.

**Mr Christopherson:** I met with Wildman, Cooke and Earlton and they told me how you go about this. Here is what you put in the dissent.

**The Chair:** Then, Mr Sterling, this afternoon we will have to set the time frame within which the report should be submitted to the committee.

**Mr Christopherson:** I think we had originally suggested five days and asked if that was going to be sufficient for the parties.

**The Chair:** I believe that Mr Stockwell informed us that it was written and ready to go three days ago.

**Mr Christopherson:** I am glad that everything was considered and carefully weighed.

**Mr Sterling:** Actually, it has not been finalized, to tell the truth. We were counting on the revenue projections to finalize it, but unfortunately the Treasurer will not bring it forward.

**Mr Elston:** It is not on PC letterhead yet.

**Mr Sterling:** So we are having to revise part of it and on other evidence.

**The Chair:** We have also in front of us this morning Pre-Budget Consultations Report: Revision 2, with the recommendations of the government caucus placed in. What is the will of the committee? Do we look at this or do we finish all of the recommendations and revisit this

later on this afternoon? What is the will of the committee on that? How do we want to handle it?

**Mr Christopherson:** We are easy.

**The Chair:** Are you leaving the decision up to me to make?

**Mr Christopherson:** I am just trying to be as cooperative as possible on the last day of our discussions. That is all. We are quite flexible as to how we approach.

**The Chair:** From my perspective, I would like to deal with the rest of the recommendations and revisit the entire report in the afternoon with the idea of having it completed. Is that acceptable?

**Mr Christopherson:** Yes. We have the balance of our recommendations, which I believe have been circulated. We are prepared to discuss those. We can begin discussions. I do not know how far we will get this morning, but we can certainly begin discussions on the document that was tabled yesterday and our ensuing discussions. There is one more chunk of the package, if you will, which should not be more than two pages at most, that will be tabled first thing this afternoon, immediately after lunch. Then everything is, if you will, tabled before the committee and just remains for discussion and final approval.

**The Chair:** I would like to begin then with the New Democratic Party Recommendations, Part II. I think perhaps it would be good if you started.

**Mr Christopherson:** "The committee is in full agreement over the need to re-examine the financial relationship between the two levels of government. The municipalities, when not included in the decision-making process, are put in the difficult position of having to find the necessary funds.

"The committee, therefore, recommends that:

"The Fair Tax Commission should be directed to include examining the tax structure of municipal governments, with a view to recommending a new financial relationship with the province.

"The government should support the exploration of alternative sources of revenues and the establishment of a revenue-sharing act as potential revenue-generating mechanisms for the municipal sector.

"The province should aim to provide the Association of Municipalities of Ontario with regular updates of government priorities, as well as tentative time lines for the introduction of new programs and policy initiatives.

"Budget decisions should take into account the fact that service delivery frequently involves more than one arm of government."

**The Chair:** Discussion, please.

**Mr Phillips:** I did not see where you were, what page.

**Mr Christopherson:** Sorry, that is page 9, revision 1.

**Mr Phillips:** The thing that is missing here is any recommendation on what the Treasurer might have been looking for, which is advice on this year's budget and whether the government members were planning to respond at least to AMO's request that grants for the municipalities in one case keep pace with the inflation rather than match the increased costs. I gather not.

**Mr Christopherson:** I just do not recall it. Did we address that yesterday?

**Mr Phillips:** No, I am saying that AMO came here with those recommendations, I thought, but there are no recommendations in here, I do not think, about how the Treasurer should respond to the municipalities in this year's budget.

**Mr Christopherson:** No, what you see before you is what we are recommending in that section.

**Mr Phillips:** Is there any reason why you chose not to respond to AMO's recommendations on grants?

**Mrs Sullivan:** Transfer payments.

**Mr Phillips:** Yes, transfer payments, I should say. Pardon me.

1020

**Mr Christopherson:** We felt that the recommendations contained here, particularly the first one, dealt with that whole issue. Being from a regional government, I know you could do an entire document alone on the individual specifics of where the cost-sharing arrangement is not currently working. We felt that the first one adequately covered off those specific concerns as well as others.

**Mr Phillips:** So when AMO says to us, "What was your recommendation on our grants?" we would say, "Well, it's the Fair Tax Commission that you look to for the answer three years from now." I am just saying that would be tough for us to—I mean, you may be able to articulate to AMO on its transfer payments for this year, but I think that would be seen as a fairly interesting shelving of its request for at least two to three years.

**Mr Christopherson:** Let me take your points back.

**Mr Phillips:** This is a good try, though.

**The Chair:** Do you want to clarify that? That is almost like a dangling participle. A good try in terms of referencing to what?

**Mr Phillips:** I am just saying the Treasurer is looking for advice on this year's budget, what should he be doing and did AMO make a good case for the unconditional grants and the conditional grants or not? When they come back to us and we say, "We sent it off to the Fair Tax Commission," they will say, "Wait a minute, we've got our property taxpayers coming up this fall"—in fact it is an election—"and what you've really done, committee, is just put us in the filing cabinet," for at least two years, I would think. That is all, and you may want to do that.

**Mr Christopherson:** Like yesterday and the preceding day, on the first runthrough we are taking what you have to say and we will get back to you.

**Mr Phillips:** Thank you.

**Mrs Sullivan:** I think as well, unless you have covered it somewhere else, you might want to address the issue of the timing of the announcements of transfer payments. It was raised by a number of groups and organizations. In the past, as a matter of courtesy and custom, to assist the municipalities and the school boards and the hospitals in determining their budget-setting, it has been done much earlier, in fact in early November. As a consequence, this year there have been severe problems for all the municipalities, universities, schools and hospitals or MUSH sector. It was raised by all of them, and I think that it should have been addressed.

**Mr Christopherson:** Just for clarification, are you referring to this year specifically or are you referring to what has been done in the past and the timing of it even then?

**Mrs Sullivan:** In the past the transfer announcements have been made earlier.

**Mr Christopherson:** Than this year?

**Mrs Sullivan:** Yes. This year is significantly late.

**Mr Christopherson:** That has been acknowledged when it was announced they would be delayed and the reason why of it. I am just trying to clarify now, did you have something mentioned on that? If so, I could probably comment now. If you are talking about when it is traditionally announced, then that would be a different matter.

**Mrs Sullivan:** I think there should be some recommendation from the committee that the announcements ought to follow the pattern that they have followed to enable the municipalities and hospitals and schools to meet their budgeting requirements. There have been significant difficulties this year and this budget relates to the 1991 fiscal year, which will also include another transfer payment.

**Mr Christopherson:** The announcement this year, I understand it, was certainly not meant to change the timing of when announcements are made. It was unique this year as a result of the election, the new government, a whole host of things. So I think it might be a little difficult for us to address as a recommendation per se in this report.

If we would like to make a recommendation, however, that talks about the timing of announcements in general and that they be made at the earliest possible date to allow for the councils and boards to set their budgets, then that is, as I said, a separate matter.

**Mr Elston:** I just want to bring to the committee's attention, because the you may not have been able to get through the pile of material that just landed on your desk probably this morning. One of the feature pieces, I think, is because it deals specifically as well with municipalities is a letter that has come in from the city of Toronto's Mayor Art Eggleton, who is recommending that several things be done with respect to specific items.

I do not know if you can tell which pile is current. It was in the current pile of material that landed on my desk when I arrived here this morning. It is a letter dated February from Mayor Eggleton, and he has expressed some very real concerns, I think, which are extremely important when it comes particularly to his concern about



environmental remediation. It also speaks about taxes and couple of other items.

While Mr Christopherson is taking back a few of the concerns that had been expressed by Gerry and Barbara to consider, I wonder if he might not want to include in consideration at least two or three of the items which I see are that are particularly large projects. The mayor, for instance, wants to continue with the Ataririri project, which is a big non-profit housing component development downtown Toronto. He talks about the change in business taxes, talks about the series of issues that we spoke out when we talked about taxes, ie, taking some of the load off the municipal property tax base and moving it into provincial funding.

Just to bring it to your attention, because I realize it is new, there is some very good and helpful material. I think everybody would recognize that Eggleton, over the course of his tenure in city hall in Toronto, has shown a pretty big interest in renewal of the downtown of the city. There has been a lot of effort put into ensuring a balance of development and maintenance of a homy atmosphere in downtown Toronto.

In fact, it is a significantly recognized city as being an inner core compared to a lot of other places. I just bring it to your attention, and you might consider the possibility of including some of Mayor Eggleton's suggestions in the recommendations as well. They are fairly specific, and I guess you could probably say yes or no fairly quickly if you reviewed his letter.

**Mr Christopherson:** We will be glad to consider the letter during the break. I would ask the clerk if we could get a better copy, though. This one is pretty faded. Unless one of my colleagues has a better copy, this one is pretty faded. Could we get another one, please? We will do what we can to try to respond to some of those concerns.

**The Chair:** This was faxed to us and apparently the original is on its way. Since it only has six blocks to go, we should have it relatively soon.

**Mr Elston:** They are not using the post office.

**Mr Christopherson:** If not, we will struggle along.

**Mr Elston:** I know now, just as a point of interest, a small village in my riding that is about 12 miles from Kitchikton that will get seven-day mail delivery between Kitchikton and it now. The post office has reorganized and become more efficient. They dispatch a letter from Kitchikton to Kitchener where it sits for four days before it takes it three days to get shipped that 12-mile distance.

**The Chair:** Is this because they have closed the post office?

**Mr Elston:** No, it is because they have changed their mail flow and they no longer sort all the mail in Kitchikton to be sent with the delivery person and pickup person around the area. They have to take everything back to Kitchener to sort and then send it back out. So if they are doing anything like that here, we might have to be waiting again next noon.

**The Chair:** Maybe we could get magnifying glasses and try to read this then.

**Mr Elston:** It is a little hard, but I was able to go through a bit. It is not the best, I agree, but there are some good suggestions in there just from the point of view that they fit, I think, fairly well with some of the things we have talked about here.

**The Chair:** Any more discussion on this section, or do we leave this pending consideration of these requests from the mayor of Toronto? Should we go on to another section?

**Mr Christopherson:** We are prepared to go on to other sections. Maybe now is a good time. I have a concern that I think needs to be expressed. We have been receiving reports all along, up to and including this morning, as Mr Elston has brought forward, and I am concerned that there may indeed still be things that came in this morning or other reports that—fine, if one of us, while we are sitting here, gets a moment to go through one of the submissions or we recognize the organization, but I am wondering if we could have some sense of at what point the researchers are able to capture some of the points made in submissions if indeed they are not raised by committee members.

1030

**The Chair:** The advertisement indicated that this committee would accept submissions until 6 February, which means we should have them all by now. As far as being able to read through these and put information into the report is concerned, I will let Anne handle that.

**Ms Anderson:** The initial draft of the report only included recommendations which had come in basically till the end of the hearings, who we have heard from, so what is in the text does not at this point include a lot of information that is in the others. On a quick look through it, a lot of the additional submissions that have come in do not incorporate points which have not been raised to date, but I will check that and make sure there are not any additional points that need to be looked at.

**Mr Christopherson:** In fairness, we are on the last day of the hearings and I can appreciate that you have been kept very busy with the changes we have made to the existing drafts, let alone additions. I am wondering, Mr Chair, if it would not be appropriate to send an additional letter or include in the body of a letter to those submitters when we are thanking them to acknowledge that indeed it came after the submission date but that we made an effort to try and incorporate—just to express somehow in the letter that it did not come in at the same time as the other submissions so that it could not be given the time it deserved, but we did make an effort or it was at least reviewed, something to that effect; just so that if there are very important recommendations or positions that do not get addressed, there is a legitimate answer why they did not get the same consideration as others.

**The Chair:** Okay. Moving along.

**Mr Christopherson:** Next paragraph: "The committee is fully supportive of the arts community in its efforts to enhance cultural activities. In order for any community to thrive, it must have a strong artistic base.

"Therefore, the committee recommends that:



"The government should act with the conviction that the arts are an important element in the quality of life that Ontarians enjoy.

"The government should strengthen and expand the mandate of the Ontario Arts Council."

**Mrs Sullivan:** I hate to go back to the theme I kept raising yesterday, but I am going to have to. This document we are preparing are recommendations relating to choices for spending and for revenue generation for the next budget. The Treasurer responds either by accepting or rejecting those recommendations and by responding to them. The Ontario Arts Council came before this committee with a very specific plan, a significant change from its previous five-year plan, moving into a three-year plan, which it justified before the committee. The question before us is: Is the committee going to accept, reject or want to adjust that kind of recommendation and put that before the Treasurer?

Another area which has not been addressed and was not particularly well addressed relates to the continuation of the Ontario film investment program, which has been a significant contributor and is apparently under review. Perhaps there ought to be recommendations relating to those particular issues. The government has already spoken in a major way in relationship to the arts with the discontinuance of the opera ballet theatre. The government must clearly, then, have a point of view relating to a continuing arts policy.

If this committee is going to contribute to the decisions relating to the funding or the program strength, the recommendation should be so that the Treasurer is able to look at those recommendations and make the choice of agreeing with them or disagreeing with them and putting that choice into the budget.

"Strengthen and expand the mandate of the Ontario Arts Council." We were not asked at all to even look at the mandate of the Ontario Arts Council. We were asked to recommend funding for operations so that their programs can continue and continue to be strong. We were not asked to review the mandate, nor is that a budgetary decision.

**Mr Elston:** I apologize for being out. I just wanted to bring, again, to the attention of people—I thank my colleague for mentioning the Ontario film investment program. It is a specific program. I have received phone calls about it in my office. I know there has not been anything put forward here, but when you talk about a firm commitment to the arts, I have been told by several people and some through correspondence that that particular program is probably up for slashing by this government, that policy and priorities is undertaking a review of it with an eye to ending it, that there were huge amounts of investment brought in by this relatively small program, that it employed a whole series of people who were attached to organizations that provide labour to the film industry and, in fact, made it possible for the Ontario film world to exist.

While I do not think we can make a recommendation here because we have not received a presentation directly enough on the point, I think it would be a shame if I did not at least bring it to Mr Christopherson's attention that

this is a component to the cultural community's wellbeing in the province. Perhaps if we cannot make a recommendation in the body or the text of this, I would hope would take back—certainly I am concerned that the government is considering taking apart the support structure of the cultural community of Ontario and that the Ontario film investment program be looked at as a component, as you have already looked at the Ontario Arts Council obviously, of a healthy cultural community.

I know I am treading on rather thin ice because I have not had a presentation, but I felt I could not just let it pass by without bringing to your attention the concern has been elicited—maybe it is just rumour, but certainly major concerns in the filming community.

**Mr Hansen:** In the draft summary of recommendations, there is nothing on the Ontario Arts Council at all. Did you notice that? I am looking through. I wanted to refresh my memory on that. Is there anything in there?

**Mr Elston:** In the draft, on the Ontario Arts Council.

**Mr Hansen:** In the draft of the summary of recommendations.

**Mr Elston:** I was not looking at the summary of recommendations.

**Mr Hansen:** I was trying to go back, in case there were not up here.

**The Chair:** Page 5, the second version. I do not know if you have that.

**Mr Hansen:** I have an old version.

**Mrs Sullivan:** Whether or not they are included in the summary, they appeared before the committee a week ago today, as I recall. I think I probably have somewhere in this pile their one-page sheet, which is a very specific monetary financial summary of the requirements of the Ontario Arts Council to move into the implementation of its new three-year program. It was a significant presentation. During the course of it, they talked about not only the necessity for the arts in terms of support for quality of life but about the economic impact of the arts, which may be words you want to include. I have it right here. The final page of their document: basically they are looking for an increase to base of \$11 million.

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**The Chair:** In year one.

**Mrs Sullivan:** In year one, which is the budget year we are talking about.

**The Chair:** That plan calls for a three-year incremental increase. If I remember, the final numbers were somewhere in the neighbourhood of \$20 million over the three years.

**Mrs Sullivan:** It is \$26 million. If the government caucus is looking for a reference for framing, perhaps they could suggest that the Treasurer acknowledge and commit to the three-year program with the Ontario Arts Council and budget in the current fiscal year an \$11-million increase to the base.

**Mr Christopherson:** The information for that is where? Is it in their submission?



**Mrs Sullivan:** It is in the Ontario Arts Council presentation.

**The Chair:** It is on the last page.

**Mr Christopherson:** There was a chart on the submission you showed? Okay. We will take a look at it.

**The Chair:** Further discussion? Should we move on to the next section?

**Mr Christopherson:** The next paragraph leads in:

"The committee recognizes the construction sector's leading role in the economic recovery. Any efforts to stimulate economic activity must begin in this area.

"The committee, therefore, recommends that:

"The government should continue its antirecession spending on public works for maximum impact.

"The Ontario government should urge the federal government to relax its adherence to high interest rates and tight monetary policy in order to reverse the downturn in the construction sector.

"The government of Ontario should negotiate with the federal government to begin addressing the transportation needs of the north.

"The province should seek a creative financing arrangement by all levels of government to finance new infrastructure, maintenance and renewal.

"The committee would like to note that other recommendations were made under 'Social Issues—Housing.'"

**Mr Phillips:** I think the challenge here is going to be in the preamble it says, "Any efforts to stimulate economic activity must begin in this area" and that three of the four recommendations are long-term and therefore, I think, will look a little unusual if this is going to be a lead to work out of the recession. It talks a lot about longer-term solutions. I would think you would want to be a little firmer on accelerating this antirecession spending. Indeed we are only six to eight months from coming out of the recession, whatever we want to do to bring it out has to occur instantly.

I do not know whether you want to mention the sewer and water commission in here. I think it is planned to proceed, but that seemed to me to be another thing that can move things along quickly.

The last point is that I know it will be convenient to blame the federal government—for both parties that are in here it might be easy—but the fact is that we cannot ignore the fact that the federal government still only provides about 10% of the revenues to the province; 90% come from elsewhere. So there will be a limit to how much we can blame them—it would be good—for all the economic woes. I think it is a nice tactic. I think we have to be careful of hiding behind the federal government, because in at least two and maybe three of the four recommendations, we are looking for the federal government to help us.

My point is this: If we are looking for things to bring us out of the recession in the next few months, I do not think three of the four recommendations are timely. They may be things we ought to look at for the longer term. I would think you want to be talking about accelerating the antirecession spending, and maybe we want to look at

other things. In the Agenda for People, there was \$200 million a year committed to the northern fund, for which you may not have to wait for the federal government, and \$100 million a year for the four-laning; that one says it will be after negotiations with the feds, but when things are as desperate as they are now, I am not sure you want to tie all your fortunes to the federal government.

**Mr Elston:** Bringing my past experience to bear on the item dealing with northern Ontario travel. I remember quite well that Floyd used to advocate, as did his colleagues in the last Parliament, that we should proceed and move ahead rapidly with our own initiatives and not wait for the feds, because they were not very reliable anyway. I would think that Floyd, taking this type of recommendation, would sit in his office with his feet up on his desk and laugh and say, "That's no recommendation at all," because he knows the practical nature of a recommendation. I said that yesterday about agricultural stuff and a whole series of things. It just lets the whole problem escape having to be addressed. Anyway, that is in that particular issue.

I have a bit of a concern at this moment putting a checkmark beside these recommendations as well, when you say, "The committee would like to note that other recommendations were made under 'Social Issues—Housing,'" because there were some specific things that we had asked you to consider, and if you did not accede to implementing some of the recommendations that were listed as stimuli for increased housing construction, under that section, I would make the same arguments here. If you recognize the construction industry as the prime mover of the Ontario economy out of recession, then we ought to have some very specific recommendations for the Treasurer saying that the material presented by some people with respect to housing or with respect to these particular projects was such that they would develop both employment opportunities and tax revenues for the province to help us move forward.

While I can understand you wanting to put that in, I am not sure whether you put anything else in that is going to be precise enough to be seen as a recommendation that really goes along with your preamble.

**Mr Christopherson:** I can respect what you are saying. It is consistent with your position yesterday that most of the ticks were tentative. I think this is one where if you are not seeing the wording that you prefer in that section, you may then have to pull back your support for that and this. I understand that. We will be aware of that when we make our final deliberations.

**Mr Elston:** David, you are in this a little deeper than any of the rest of us, because you are doing some consultations as well with the Treasurer in the pre-budget sense, and you are in the flow of information. Is it your intention, the NDP caucus's intention, that we have specific items for the Treasurer to consider? Yesterday we did consider funding the SARC group's corporate strategies. I know I reacted rather negatively to that one, but as an example, you chose to recommend a funding area there for discussion purposes, but in the housing and construction sectors you have chosen no particular programs as items you felt



should be favoured with a particular move. I see, for instance, in the housing one, again, for yesterday, the recommendation that the 20,000 non-profit units be built.

I do not want to go through each of those items and discuss their relative merits if it is not the intention of the committee to consider recommendations along the lines of specific programs that have a fiscal outlook and that also, because they are a little more defined, would have a real effect on employment and other things. If you do not want to consider those things for inclusion, if you want to be more general in nature in this document, I will accede to that and not waste too much time. But if you want to do some specific checkmarking of programs that appear to be good ideas, I would not mind giving a couple of my ideas on the list that is in front of us.

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**Mr Christopherson:** We have been very frank, other than some of the usual sparring that happens between different parties. By and large, we have been having good, direct discussions and we understand where we are coming from.

We do not envision a document that gets into specific programs in great detail in every area. That is not to say there are not programs, for instance, that we would highlight if we really felt they were that significant or that there was special merit to them. At this point our feeling is that a lot of those programming decisions, especially where they were not addressed specifically in submissions and specific recommendations made, are best left to the people who are in that area, both the bureaucrats and the politicians of all political stripes.

If there is a fault in this system or this approach—I am not pretending to be a newcomer who sees everything and neither do any of my colleagues—the downside seems to be that it kind of jumps all over the place. We do some macro discussions when the banks come in, the economists come in, the labour movement, the agriculture people. Although we do the macro, then there are also the interest groups who come in within not only a ministry, but within a branch and within a program, as you pointed out yesterday with the assistive devices. You were much more aware than any of us, of course, on that and even within that division, within that branch of the ministry, if you will, there are still a number of programs, and people would come in pushing that one particular program.

It is not that we were hesitant about putting our own government on the hook because we are identifying programs; it was rather that without the expertise and without the broad discussion to give us the background, were we indeed making the right recommendation or were we merely responding to an interest group that had the opportunity and the means to come in and make a presentation? That is where we are at right now.

**Mr Elston:** I guess in many ways, if you look at some of the collection of recommendations, it would seem to me to be fairly easy for you to go along and say, for instance, in the housing section again because I have that on my mind, that a recommendation by a group that you have received to develop 20,000 non-profit housing units ought

not to need too much debate since in fact you suggest. An Agenda for people that you not only do that, but you do more, in many ways. I could not anticipate that need a whole lot of discussion because it is part of your *raison d'être* perhaps. Can we recommend something specific, because it really goes right along with the flow of your sort of battle document, if I can describe the Agenda for People as that.

**Mr Christopherson:** It is certainly becoming that. Let me say that I was responding to your general overview. I leave that to stand on its own. As we go through things you feel as a caucus that we are not being specific enough and if we have reviewed everything you have had to say then of course we have the means available that you can dissent and disagree. You asked me generally how we were approaching it so you did not waste the valuable time we have left today, and I think I have tried to be as honest and open and specific as I can.

**Mr Elston:** Okay.

**Mrs Sullivan:** I wanted to look at this section, reflation. In fact the section relates more to reflation policy than it does particularly to the construction industry, I just want to make some observations about some of the things that are written here.

First of all, we know that the government has committed \$700 million in spending as an anti-recession package. All the way through the hearings we questioned economists and people from various sectors to confirm that this type of a recession, that would be a valuable contribution and we heard that in fact spending in capital areas was a worthwhile thing for the province to do, and there was recognition that the federal government was not in a comparable position.

As we look at what has been spent, first of all, what was promised for this current fiscal year was \$41 million. I think. Now we are down to about \$34 million in projects that could be sprung. That leaves about \$665 million that the Treasurer has committed and he, again in his interview before us, said "should be committed." So we look at what the province spends its capital dollars, and when it spends it, and traditionally about one third of government spending is in direct spending: the province puts in 100-cent dollars and spends 100-cent dollars. The other two thirds are transfers that go out and the capital is spent in hospitals or wherever.

One of the things that I see here as being problematic in terms of making a recommendation is that there is no differentiation between where the government ought to be spending its own direct dollars, what portion of that \$665 million that is there for everybody to see should be devoted to provincial spending, and what portion ought to rely on municipal or other transfer sector involvement. Given that the transfer announcements are so late, how can we expect the municipalities to budget for the increased capital during the period of time when it is going to be necessary if the whole thing is going to work as a reflationary device?

I put those things to you for your consideration. In my view the province, simply because of the lateness of the transfers, is going to have to consider a far greater proportion



these expenses as direct expenditures than might otherwise have been the case, because there is just a lack of planning time at the municipal level.

The other thing is that we asked for and finally got day from Treasury—we asked on the very first day of the hearings, I want to suggest to you, and finally got day, on the last day of discussion, a discussion paper on infrastructure spending. In fact, I had particularly asked out projections relating to the greater Toronto area. It is there. A lot of the projects that are identified in this document, or at least the parameters that are included, are ready to go. Whether you want to suggest that specific areas ought to be looked at—we did not have the greater Toronto area office in to testify before us, but clearly the water and wage problems of that area have been voiced as a significant need over a period of time. I am not certain how specific you are getting. I have been pressuring for more specific discussion, but I am just making those observations.

**Mr Christopherson:** Thank you, and they are noted.

**The Chair:** Whoops.

**Mr Elston:** Mr Chairman, the opposition is pretty helpless.

**The Chair:** I would like to say that the opposition has been very helpful this morning. Thank you.

**Mr Christopherson:** Which ones?

**The Chair:** They picked up my piece of paper that I had on the floor.

**Mr Christopherson:** Credit where credit is due. The question is who are here?

**The Chair:** I do not think that should go unnoticed, that the participation of the Liberal Party here is in full evidence.

**Mr Phillips:** Fairly good quality, too.

**The Chair:** And they think it is fairly good quality, too.

**Mr Christopherson:** Certainly attentive.

**Mr Phillips:** The division did not carry.

**The Chair:** That is for this week. The last one was for contribution last week.

Where are we at this point? Are we revisiting these in light of the comments that have been made and should we try to get through this entire document this morning, so that we can—we should move along.

**Mr Christopherson:** I am waiting for your direction, Mr Chairman. I am ready to go. Just give me the word.

**The Chair:** I just wanted to make sure that we have heard everything on this section that we want to consider and then can move along.

**Mr Christopherson:** We have made notes, as we have all along. We will respond to them.

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**The Chair:** "Committee's Observations and Recommendations—page 12." We will let him read it into the record.

**Mr Christopherson:** "The committee is fully supportive of a renewed partnership between local school

boards and the province. The relationship that currently exists cannot be allowed to continue.

"Therefore, the committee recommends that:

"The province attempt to forge a new era of co-operation with local school boards.

"The Fair Tax Commission should be directed to examine the issue of 60% provincial funding for education, and that the Fair Tax Commission give this issue immediate priority.

"The government should support the Ministry of Education's review of the capital grant program and should urge consultation on such key policies as:

"the funding criteria;

"the allocation process;

"flexibility/innovation;

"child care capital;

"rated capacity and true capacity."

**Mr Phillips:** I will try not to be too partisan here, but this is perhaps the most pathetic one in the whole document. I tell you that I am very sensitive on this because during the whole campaign, if there was one promise that was so clear-cut, at least in Metropolitan Toronto, it was the 60%.

I go back to the Ontario Teachers' Federation press release:

"The president of the 124,000-member Ontario Teachers' Federation applauded today the campaign platform of the NDP party to restore 60% provincial funding for public education. 'NDP Leader Bob Rae confirmed his party's support for education during last night's television debate....It was pathetically apparent that the other two parties do not perceive the education of Ontario's young people as a major concern.'

"The OTF board of governors has demanded that the PC and Liberal parties respond by declaring their commitment....'We challenge them to recognize their responsibility....They can best do this by promising a return to 60% funding....Provincial funding has actually dropped to 41% and local taxes have had to cope with the differential.'"

Then, in *An Agenda for People*:

"New Democrats propose raising the provincial share of education costs to 60% over five years, providing a solid base for better education funding and lifting some of the load of property taxes.

"The cost of the initiative over the next two years would be \$1.5 billion. That's also \$1.5 billion in property tax relief for Ontarians. We want to reverse the punishing increases in property taxes which hit seniors and low-income people especially hard."

There is no question in anyone's mind about what was intended: 41%—the ministry outlined what 41% is, promised 60%. It will be seen as quite a major betrayal, I think, by the property taxpayers, by the teachers and by the school boards to try to shelve this for two or three years in the Fair Tax Commission. It just will not fly; it honestly will not.

As the OSSTF said, "We call on the Treasurer to define publicly once and for all the components of the provincial share as discussed above, and to agree not to change it

unilaterally. Were he to do so, he would impose a much-needed measure of integrity on our discussions."

There is no question that the teachers' group knew exactly what it was, that the trustees' groups knew, that the property tax people knew. I think we are going to have to make some commitment on moving to reduce the property tax burden in this budget and the next budget. I think is a cornerstone of the Agenda for People of the Agenda for Power, whatever it was called. I really think that of all the recommendations in here, this is the one that—there are others in here that I think you are going to have trouble with, because it will look like delaying tactics, but this one is just too transparent.

#### **The Chair:** Comments?

**Mr Elston:** I just had one brief one. You are going to get yourself into a little bit of trouble as a caucus here because of the problems that are occurring right now in Kingsville. You are getting some very interesting editorials when you talk about forging a new partnership with school boards. Marion has just returned from Kingsville, and the editorials down there are "jackboot tactics," "undemocratic." This is from the Windsor Star after Marion went in and said: "You four school boards sit down. You've got one hour to consider my ultimatum, and by the way, Kingsville school is now gone." Kimble, you are shaking your head. This is partisan—there is no question about it—but it is a very difficult thing for a group of people to say, "We've got to have a new partnership," when Marion is going around saying things like, "You've got an hour to decide, you trustees, what we do with that school down there."

She goes in and she says, "Oh, councils, if we give any more money, you don't have the right to use your taxing power as a council to do what you will with your democratically given opportunities for doing programs locally." I just want to bring it to the attention of the committee. I am not reading some of these things because they are highly inflammatory and will get us nowhere, but I just want to give you the context of the way some people are feeling in light of what you are talking about in terms of a new co-operative atmosphere. These people as well—

#### **The Chair:** Could I see the article?

**Mr Elston:** Yes, I can give this to you. This article as well, by the way, is indicating that there was a real intention by Boyd not to be around when the decision ultimately was announced in Essex; she left. Neither David Cooke nor any of your members down there, I guess, except for Pat, who is a newly elected member this term, but Dave Cooke is the veteran and none of those people were there when this occurred.

I just want you to be prepared for the idea of having a partnership when you know that style is out, and perhaps if you could deliver a wee bit of a message that if you are really setting out a new partnership type of activity in this document, then other people had better be able to live with this style of partnership that some of your ministers are delivering.

**Mr Christopherson:** Let me respond this way: As a new group of members in government, specifically we

have been attempting to find the line among ourselves acting both in the capacity as non-partisan members of committee, but also recognizing the reality that we are members of caucuses and that that has an impact on what happens here. I think the best thing about our discussions is we do tend to acknowledge when we are trying to be non-partisan and when we are wearing the party hat, everybody has been, I think, really up front about that.

We have been trying to walk that line and we take it very seriously. This recommendation is one which all members of our caucus on this committee feel very strongly about in terms of the area of co-operation with school boards and with municipalities, and if there are incidents that you believe or the other opposition parties believe are at variance with that recommendation, I not only expect but almost know for a fact, you will point out and that you will be using this document and holding it up and saying, "This is what your committee has said, etc. I do not need to make the speech for you. You will make it many times.

On that issue, I would just say that we are comfortable enough in our capacity as members of this committee as new MPPs to make that statement and to stand behind it, and if you will, deal with anything that comes afterwards. Now I do not want to leave the impression that this is an absolute purity high road that we have taken. The report shows that we have got some realities to face, on that issue I would just say to you on that we feel very strongly about it and we are very comfortable with the clause being in there and we will deal with other things they happen.

On the 60%, we spent a fair bit of time on that issue. We knew how Mr Phillips and the entire opposition caucuses felt about this issue, and we felt that this recommendation was not a delay tactic. We felt that it was consistent with Agenda for People in the context of what the Premier has said, that we will implement what we can in the term of this government and if—the opposition tries to delay, I can quote Agenda for People from memory better than I can, but the acknowledgement was that over the next years the 60% would be reached and there was a reference to some action within two years.

I would bring to the attention of the Liberal caucus that the Treasurer went to great length to say, and repeated many times, that when he announces the Fair Tax Commission and when its mandate is approved or appointed, however that process happens, he not only hopes but expects there to be recommendations that will come in the short and medium terms and that everything will not be waiting for the end of the commission's work.

1110

It was asked, I think by the Conservatives: Was the Fair Tax Commission merely the groundwork for the platform in our re-election platform? The Treasurer said clearly it is not, and I do not believe it is. I believe it is a significant effort on our part to make significant changes to the system and our relationship with cost-sharing bodies responsibly and as thoroughly as possible. That is why the government has gone this route and our caucus feels comfortable with that.



We have taken the step of giving this issue immediate priority. Again, we can always attach immediate priority to everything. In a political sense, that is what the opposition would like; that is certainly what our opposition did. But we feel strongly enough about this issue, in the context of the Fair Tax Commission and its work and the recognition that there are going to be short- and medium-term recommendations, that this be given the immediate priority we seek.

So we are still, as we are on everything else, listening, taking notes, and are going to consider everything that is said and get back to you about any changes we might feel uncomfortable with, but I thought that needed to be said, because we did spend a great deal of time on this and I think we feel good about what is here and are comfortable with it. But I am, on behalf of my colleagues, willing to ask that if you still have further comments we would be pleased to receive them and consider them.

**Mrs Sullivan:** I just had one observation about the way you have written this. Of course, we are very sensitive about this issue, as you will understand. We are looking at the Fair Tax Commission and the examination of the issue of 60% provincial funding. In fact, what we have been led to understand by the Treasurer is that the Fair Tax Commission, this tax review process, will be looking at the curbing of funds, the raising of funds and where the proportional balance should be in terms of education, not at what comes back out from the province. You may want to change the wording, because in terms of the funding of education there have been studies done relating to the cost of the definition of terms and so on; last year there was a select committee on education that talked about it at great length. You are not talking about reinventing the wheel, it seems to me; what you are talking about is looking at what is coming in rather than what is necessarily going out. So you may just want to look at what in fact you want the Fair Tax Commission to do.

**Mr Christopherson:** Specifically, what might you be suggesting?

**Mrs Sullivan:** Do you really want the Fair Tax Commission to look at the 60% question—that has been referred to death—or do you want it to look at the issue of taxation on property tax being directed to education? What do you want them to do?

**Mr Christopherson:** I see. You are concerned that the wording may suggest that we want them to look at whether it is fair that we should pay 60% or 70% or 30%, and more the question of just how that should be done. Is that a fair assessment of what you are suggesting?

**Mr Elston:** You are not going accept from the Fair Tax Commission a review to your decision to move to 60% funding, are you? You do not expect them to do that, but that is the question you have really given in this: look at the 60% issue. I do not think that is really what you really want; you want to look at the sources of funding. I think you are already committed to the 60%.

**Mr Christopherson:** Let us take a look at what you have pointed out.

**Mr Phillips:** Members may appreciate the dilemma we are in. I go back to the Agenda for People. It says there is a recession. Floyd had to have been involved in the preparation of the Agenda for People. Your senior financial person could not have avoided that. That is the big consultation. We are less than six months away. There are 13 cost recommendations in the Agenda for People. So far, you have shelved 11 of them, other than the Fair Tax Commission, or just delay. The third thing you are trying to do is to blame the feds.

From our side, we were defeated on the basis of your saying you would do these things and the dastardly Liberals would not. So I think you can expect us to say: "All right. You knew there was a recession. Floyd helped prepare the document. The recession is going to be over at the end of this year. How do you do it?" As we go through each of these, you put one thing into Floyd's filing cabinet on the Fair Tax Commission, with another one you say, "We can't do that unless the federal government co-operates," and on others you are just backing off. And then you want us to sign the document. You cannot have it all ways. That is what I am saying. That one will not go down my throat; it will not even go in my mouth, because it is such a, frankly, pathetic backing off from a major commitment.

**Mr B. Ward:** In your opinion.

**Mr Phillips:** No, any person who looked at it. There is absolutely no question of what the commitment was. You can say, "We want to back off it now, we're sorry," do a mea culpa and say, "We lied," but that is a clear, unequivocal commitment. The Premier himself wrote a letter a week before the election promising \$400 million to the property taxpayers of Metropolitan Toronto, 21% of the cost of public education. As the group that was in here the other day said, "We have a letter from the Premier saying that's what he would do"—the now Premier, the then Leader of the Opposition.

I know you are squirming a bit on it because it is going to be tough. But for us it was not particularly pleasant to be picketed, with people saying: "Well, another party can do this. Why can't you?" So now, you are going to have to do it.

**Mr Elston:** It got rather intense at some of those events.

**Mr Christopherson:** Just a couple of points. I understand your sensitivity. It is apparent. I am sure that if we found ourselves in the same situation we would be as sensitive to any agenda that a party that defeated us was putting forward. There is no trivializing our recognition of your feelings.

Let me make two quick comments on that issue. First, it is acknowledged in An Agenda for People that there is a recession. I am now answering for myself; this is not a government position. I think it has been pretty evident in the submissions we have had here today and from everything we have seen and heard and read about in economic circles that this recession has not performed like any other, it has not been anything like what happened in the early 1980s. There have been major changes. In fact, our own



report reflects the fact that there is economic restructuring and other changes happening that did not happen.

I would also point out that there are clear points of reference from economists who have said that the recession declined, and the acceleration in the decline of the economy and the deepening of the recession happened quicker than anyone expected and quicker than anyone was anticipating and signalling. I think that is also fair.

I accept the fact that you point to the word "recession" in the Agenda for People, but I do think when we are looking at things and weighing them out fairly, it must be acknowledged that it has not performed in exactly the way economists had expected—any economist, regardless of philosophy—at the time that document was written.

The other thing I would point to, again, is that our Premier has made the position on behalf of our government, and your caucus and your leader and the leader of the third party have attacked this position. That is fair ball, and it has happened in the appropriate arena. But the point is that our Premier has said we will be judged on all of our election promises as we have performed over the up to five-year term of our mandate. On behalf of our caucus in this committee, I do not believe this recommendation is inconsistent with either of those points.

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**The Chair:** I notice we have the Treasurer here. I say good morning to you. Do you wish at this point to address the committee?

**Hon Mr Laughren:** I apologize for dropping in this way, Mr Chair. I had a cabinet committee on labour and economic policy but I squirmed out of there. I had heard there was a problem on the committee yesterday and, as a strong believer in the committee system, I wanted, if you had the time, for a couple of minutes—I do not want to take over the agenda of the committee or try to, by any stretch of the imagination. I talked to my parliamentary assistant, David Christopherson, last night. I ran into him on the street, as a matter of fact. He indicated to me that there was a problem yesterday, there was unhappiness that we would not provide some numbers to the committee. I was bothered by that, because that is not how I believe the system should work. If you wish, I could try and clear up some things, although I am not too sure to all your satisfaction. I would be prepared to try, if you want to take a few minutes now.

**The Chair:** It is very nice of you to show up, to come to this meeting. It was totally unexpected. You are welcome. Maybe we should do it by way of allowing people to ask you questions.

**Hon Mr Laughren:** Can I give you a couple of indications first? Would that be helpful? It might obviate the need for some questions. I am sure you have other items on your agenda. This is your last day, is it not?

**The Chair:** Yes, it is.

**Hon Mr Laughren:** That is another reason I wanted to pop in today, because I knew it would be the last chance.

We have done some very rough projections for 1991-92. They are based on data I would just be careful about

because there are so many imponderables at this point. One example, we have no idea what the federal government is going to do in its budget with the transfer payments, absolutely none. We know from the cuts they made last year on the two big programs, CAP, Canada assistance plan, and the established programs financing, that we are going to be down over \$1 billion, and there are a couple of other small ones that add up to about \$1.3 billion we are going to be down.

Mr Wilson is already hinting at a smaller piece of money to share with the provinces. We are not trying to be pessimistic. We really do not know what is going to happen with the revenues. We do not know growth in the economy. We do not know to what extent it is going to continue through the year. There are guesses, but our guesses in the previous year, as you know, the projections during this past year have been off base. They have not been very good, frankly, as the economy has deteriorated from under us. I am nervous about those numbers.

We—the people in Treasury—went through and tried to do some high, medium and low numbers about growth. I can see Mr Elston nodding his head. I am sure when he was Chair of Management Board he was engaged in this kind of process too.

**Mr Elston:** I was certainly accused of relying heavily on the lower end of a lot of expenditure needs. At least that is what my caucus and cabinet colleagues accused Management Board of doing.

**Hon Mr Laughren:** Right. I have heard the line before.

I will start off by going through what the high and low economic projections are and then take a look at the medium ones. If you leave inflation in, in other words, not just growth but just nominal growth, at the high level we see as possibly 5.9%—that is gross domestic product; that is very high—at the medium, 5.5%, and at the low 1.7%. If you assume, which was what the grey book did last year, I believe, that our revenues will grow at 90% of GDP, then you would get revenues at the high end of around \$45 billion and at the low end of about \$44.8 billion. The end is assuming, by the way, that revenues only grow at 80% of GDP, in other words, lower elasticity.

But I would keep in mind that there is nothing in the budget that reads the budget changes at the federal level. There is nothing in there that has to do with any changes in provincial taxes, because we have not made those decisions yet. We have barely started that. We are running behind; there is a question about that. We are running slower than the government and Treasury was last year at this time. I do not want to be apologetic, because it has been a transition period from 1 October when we were sworn in. For example, the major transfers we are going to announce on Monday, we are behind on that as well. I do not particularly like that but that is the way it is.

If we take out the inflation and end up with real growth at the high level—this is at the high level—it comes to less than 1%, 0.9%, we think, and at the low level, minus 2.5% growth, negative growth, in the economy. We are looking at unemployment as well. At the



vel, which is 0.9% real growth, we still have an unemployment rate of over 7%, 7.1%. At the low rate, in terms of real growth, but high rate in terms of unemployment, it could be over 9%, I think about 9.2%.

Those are the three scenarios. It would be very logical you asked me: What assumptions did you make in order to arrive at the high and low scenarios? For the high scenario, in terms of economic growth, that assumes it would be an earlier recovery in the US with its economy than many people are projecting and an early end to the war in the Gulf, which everybody seems to agree would cause a rebound in consumer and business confidence, which has a lot to do with investment and spending; it also makes the heroic assumption that there would be continued and substantial reduction in interest rates in Canada. I think you know why I say it would be a heroic assumption. I am sure even Mr Stockwell would agree with me. The low end, in terms of low real growth—I thought maybe some of you did not see Mr Stockwell come in—at the low end, it implies that the recession in the States goes on longer than we hope it will and that the war drags on as well, and because of those factors that consumer and business confidence declines as well.

That is a very, very rough and, I realize, lay person's way of approaching it. You could draw a line down the middle between those highs and lows as well and come up with something, but that is how we see it.

There are a couple of comments I would like to make. One is that I think you appreciate the fact that we are quite happy to share these kinds of things with you. It is always dangerous, when things are changing, that you are going to wait until later when these numbers do not come out the way—we are saying, "These are what the projections would be," and you say: "Look, you guys don't know what you're doing. You said this and here's what's really happened." I do not think the official opposition would say that to us, but others might.

Interjections.

**Hon Mr Laughren:** Anyway, I will not tease the others.

The other thing is that we cannot be put in the position of writing the budget in public. I think that causes all sorts of nonsense out there. I am not a big fan of secrecy, and we are going to be wrestling next year with how to make the process a little more open, and I would hope to use this committee. At the same time, there is a line you walk here, in terms of dealing with revenues, based on the tax changes you make. There is some kind of balance there and I, quite frankly, do not know where it is. I would hope you will respect that dilemma of trying to be as open as we can without writing the budget in public. We are—I am not saying this—just now starting the process of looking at potential revenue sources at a time of a recession. We know, once again, that that is a fine line to walk.

Anyway, I will stop talking. I have a few minutes. I have to go back to the labour and economics committee, but I would be glad to try to answer any questions.

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**Mr Phillips:** We are trying to get a handle on revenues for next year, and we find this process quite difficult, because I think in the past a grey book has been prepared and it says, "If the status quo goes on, here's the revenue, here are the expenditures and here's the deficit." I do not know whether you want to give the committee advice on what kind of deficit one should be considering. I know you have mused in the press. We did get today from your officials an estimate that for every lowering of the credit rating, it costs \$25 million a year per billion dollars. I assume we go to the market for \$4 billion this year or something like that, so presumably if we lose one credit rating it is \$100 million in incremental cost.

**Hon Mr Laughren:** As a matter of fact, I was talking to people on that this morning. That, once again, is a very rough figure, because I do not think there is a formula you can apply. I suspect it means what is happening to other people's credit ratings. The interest rates are dropping out there as well although, to be fair, whether they are dropping or going up or staying down, it is the difference between a triple A and a double A plus, for example, that you are talking about, I believe.

**Mr Phillips:** I am just trying to get a hint from you of whether this committee needs to be worried about our credit rating or not.

**Hon Mr Laughren:** I wish I could answer that question. I do not know. There is no question that our deficit is going up. You do not have to be a rocket scientist to see that the deficit is going up substantially in 1991-92. I cannot give you a hard number, for the reasons we have already gone through: some of these predictions in the economy; we do not know what our revenues are going to be because we have not set them yet; we have no idea how the economy is going to rebound, or we do not know very precisely. The deficit will go up.

What I cannot read, and I do not think people in Treasury can, is to what extent the bond rating agencies—I think there are two in Canada and several in the States as well—will see the makeup of the deficit. For example, if it was expenditures out of control, that would be totally different than the economy going into a recession, us keeping our expenditures under control but not wanting to raise substantial revenues. It seems to me that the bond rating agencies would judge us differently depending on how we respond, and the component of that deficit, what has led to that deficit. But I am guessing on that; I do not know how they will respond.

**Mr Phillips:** I have quite a few questions. I just do not know how you want to handle it. Can I ask a couple more and then come back?

**The Chair:** I think you can continue. You may ask questions that other people have, and if not—

**Mr Phillips:** We were just having a debate when you came in about the Agenda for People. It is something I cannot get off my plate, because that is what everybody trots in here with. I can only assume you were involved in the drafting of it, as the senior financial person in the party.

**Hon Mr Laughren:** That is another heroic assumption.

**Mr Phillips:** As we have said here many times, recession was in the agenda—

**Mr Elston:** Floyd, now I know why you are not wearing your pink shirt. The blush to your complexion at the moment would clash.

**Hon Mr Laughren:** Never mind.

**Mr Phillips:** I was saying before you came in that there are 13 agenda costs, and so far in the committee's suggestions I think 11 of them have been shelved either to the Fair Tax Commission or to the—

**Hon Mr Laughren:** That is not shelving; it is giving it to the Fair Tax Commission. That is figuring out a way to implement it.

**Mr Phillips:** Relative to your promises in the Agenda for People it is. You said on education taxes, "In the next two years, we would remove the burden of \$1.5 billion from the property taxpayer." Now the committee is suggesting, or government members are, shelve it or delay it for two or three years.

**Mrs Sullivan:** Postpone, postpone, abstain.

**Mr Phillips:** All I am saying is that of the 13 recommendations in here, at least 11 are going to be put on the shelf or delayed substantially.

**Hon Mr Laughren:** That is a better way of putting it.

**Mr Phillips:** Delayed substantially?

**Hon Mr Laughren:** Delayed.

**Mr Phillips:** I would like to comment on that, but I want to get the other part of my question out, too. You say that federal government transfer payments are down a billion next year. From what to what are you estimating they will go? This year they have gone up; at least in your current outlook they went up another \$225 million.

**Hon Mr Laughren:** Yes, but we are talking now about the CAP. You recall that with the Canada assistance plan they served notice that they were limiting the growth in the CAP, and they did basically the same thing with the established programs financing. If they had not done that, if they had stuck to the old formula, that is how much—we are getting that much less this year than we would otherwise be getting. Am I explaining that correctly?

**Mr Phillips:** What is the billion? From what to what, from \$5.6 billion to \$4.6 billion?

**Hon Mr Laughren:** Tony has it. This is Tony Salerno from Treasury.

**Mr Salerno:** The decrease is from where it would have been, because CAP, for instance, is triggered by provincial spending on social assistance. To the extent that there is growth in that expenditure, the province would pick it up in the first instance but be reimbursed for half of those costs by the federal government. You have all heard how the social assistance payments have been increasing and are projected to continue to increase next year. Well, the federal share would have been increasing. Frankly, with the 5% cap at this time, it limits the federal transfers to the province to a 5% growth. Given that our projection of spending in that area is much higher, you will still see

an increase in CAP transfers from the federal government. However, it will not be at the rate of the provincial expenditure in that area.

You were asking about the increases this year. First of all, there is a delay in the transfers of those, the effect of the reduction or cap of the federal transfers, because the flow is somewhat delayed. So the full impact of the ceiling this year is not felt to the full extent because of the lag in the transfers to the province.

There are also some adjustments that are included in the third quarter Ontario finances in respect to prior years, essentially settling accounts with respect to prior years.

**Mr Phillips:** Should we think that the federal transfer payments will be up 5% instead of something else? When you say it is down a billion, I think most people think it must be going from \$5.6 billion to \$4.6 billion.

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**Mr Salerno:** There is another complication there, because the total entitlements will grow by 5%. However, the cash transfer could in fact be negative, depending on the value of the tax points that have been transferred to the province. Part of the transfer to the province is in the form of tax—13.5 points of personal income tax and 1.5 points in corporate taxes. So to the extent that, for instance, the personal income tax is growing, if it is projected to grow greater than 5% it will reduce the cash entitlement. When the total entitlement is calculated, you subtract the tax value and what is left is a cash transfer from the federal government. In fact, as you see, in the established programs financing, EPF, there is an inverse relationship. The PIT growth of \$937 million triggered a reduction in the EPF transfers, and that reduction is reflected in a negative adjustment here in the third quarter Ontario finances. You cannot in aggregate right now what the observed growth will be in the cash transfers.

**Mr Phillips:** Being as gentle as I can be—as I have been before, this party and our party like to offload on the federal government. Your explanation there really just clouds it for me, because I think, "All right, I understand now." I look down at the bottom of this document here and I see those dirty federal transfers reducing the transfer payments. But you are saying that because one of the things we agreed is that when we take more of the personal income tax, we would take less in transfer payments.

We are trying to figure out the advice to the Treasury. You can appreciate, as I listen to this, I am confused, because you start off saying, "We're going to get \$1 billion less from the feds."

**Hon Mr Laughren:** Perhaps a better way of saying it is we are going to get over \$1 billion less than we should be getting, in our opinion. It is particularly offensive at this time when our welfare case loads—because this goes to help pay for social assistance—are going through the roof and we get municipalities such as Peel, was it, saying they are not going to reimburse the province, it is not going to be their cost of welfare—it was in the paper this morning and stick it to us. That is a very nice solution. Would you not all like to be able to that?



**Mr Phillips:** Except that your official has said that part of the "windfall"—I do not like to call it windfall personally, because I follow the federal numbers and I look again at the first nine months—was not windfall at all; it was an agreement we had with them that they would give us less money in CAP payments and more money in income tax. Did you not just say that, that we are taking more per cent on the personal income tax?

**Mr Salerno:** No, the total entitlement is determined. What the federal government has done a number of times since 1981, but most recently in its last budget, is limit the total entitlement. The only thing I said is that in calculating the cash balance, you have to first subtract the value of those tax points that were negotiated back in the 1970s. To the extent that those tax points are worth more, then the balance, the cash transfer, will be less. But you first have to work off the total entitlement, and this is what they have reduced, to the tune of about \$1.1 billion last year. There is another \$200 million in other actions, but the impact of AP and EPF in last year's federal budget will cost the province next year \$1.1 billion, in that neighbourhood, based on our estimate of what we might be spending on social assistance.

**Hon Mr Laughren:** Our other problem is that there is no indication that that is the end of it either, for this coming year.

**Mr Phillips:** I am sorry. I guess somebody else had stated it. I think we get about 11% of our revenue from this source; 89% comes from elsewhere. You are saying it is only going to go up maybe 5% instead of substantially more.

**Mr Salerno:** No, it will grow at a rate lower than 5%, the cash transfer, because you have to distinguish between total entitlement and the cash transfers. All I am saying is at the cash transfer here, what you will observe in that segment of the budget that is the federal transfers, will likely grow at a slower pace than 5%, because I think the personal income tax may be growing at a faster rate so that it will offset some of that.

This is all assuming that there are no prior year adjustments, which there may be, and that might be positive or negative. That may cloud up exactly the observed rate of growth. It is not a simple calculation. I am sorry if I seem to be making it even more confused, but that is the way it goes.

**Mr Phillips:** When we got the \$1 billion, I just—I am repeating myself, Mr Chair.

**Mr Elston:** Perhaps while we are with Mr Salerno discussing how he determines revenue from the feds, perhaps we could get the Ministry of Education in to tell us about general legislative grants too. We might as well continue on in this same fashion.

I just want to thank you for being here. When I was listening to this—Dr Christie and his panel have been through this with others before—I cannot help but reflect on several policy and priorities meetings we used to have in a previous situation we found ourselves in. This is not so much different from what we were dealing with last year. I remember the issues for us last year were: What are

the feds going to do to us when the budget comes down in February? How difficult is Wilson going to be? What is he going to do? We just went through, and basically both the Treasurer and Mr Salerno have told us again that there is concern about just how far the speculation on slashing at the federal level will go. That is a given.

I remember as well having the three scenarios for income. For revenue levels you have a bright one, you have a not-so-bright one and then you have one that is absolutely dismal just to get everybody's attention, because if you do not get everybody's attention, then you can be really in bad shape.

I know what happens. People reach out and say, "Okay, this is what has been generated internally." Can you tell us of the options that have been chosen by Treasury, if you have sort of an accumulated wisdom from the private sector as to which of the options is most likely to occur? Because I know there is a comparison always made internally with external numbers, and although there are various people who do the crystal ball gazing, you would kind of like to know whether your crystal ball is as finely tuned as others or not. Did you bring your crystal ball with you?

**Dr Christie:** No, I do not have much room. We do, as you have noted, look at the external forecasters for the Ontario economy. When we were here last time, we left with you some material on what we had at that point in terms of what people were saying for Ontario. One of the difficulties with that approach is that, while we try to stay as current as we can, the way that business works is that there is always quite a publication lag between the time, say, that the forecaster for a chartered bank internally changes his or her forecast and gets it through his management process and through publication, etc. When those forecasts come out they are often quite dated.

While we do try and measure that and have a good sense of where people are, and by talking to them have a sense of where they are versus what they have published, it has not traditionally been a really good test of where in the range things are going to be, because, as I described, you never know where the range is at any point in time; it is only a couple of months later that you see where the range was, I think.

**Mr Elston:** There have been, I think, though, an establishment of a general track record of those people who come closest to the dart board, when the dart board actually appears where the dart was thrown, if I can describe it in that fashion. You would probably rely on a particular organization more for a good track record than others. Can you tell us what those are?

**Dr Christie:** How many reputations are going to—

**Mr Elston:** The Conference Board of Canada sometimes comes out with good stuff—

**Dr Christie:** From year to year, our experience has been that, for example, certain forecasters appear to be better at anticipating higher growth than everyone else, so if you are in a high-growth environment you will find person A to perform quite well; when it turns around, person A is probably the worst of the forecasters because he tends to be more optimistic. You will find also people in



the other camp. We have not found anyone who is, good years and bad years, better than the crowd.

**Mr Elston:** Not to spend too much longer on it, basically this is normal exercise for the folks in Treasury, even this year, although it may be more difficult to isolate just how deep the recession is, and there is one more really big variable, which is, of course, the war in the Gulf, an external influence that none of us probably anticipated. I do not remember us talking about a war in Kuwait and Iraq a year ago when we were looking at budgetary items. That going into the mix, it is going to be still difficult, but it is normal experience for budget activity, is it not, when you try and figure what your revenues are going to be?

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**Dr Christie:** There is a continuing exercise, week in, week out, certainly in terms of the economic indicators. There is usually something coming out every week, and you look at it and try and assess it and say, "Does this make enough of a difference to change the forecast of any particular major item?" but, as I am sure the committee has noted from the people who have come to talk to you, things are sufficiently fluid now that it is a rolling exercise. At any point in time the numbers are different, so there is not a high degree of reliance placed internally on any given set of numbers, because the staff working on them know, just wait 10 days and they will be different.

**Mr Elston:** Just to move to one particular question, then. Although I would love to have the Treasurer here for an extended period, I know he has to get back. When you talked about the credit worthiness of your plan, you mentioned that if expenditures were seen to be wildly out of control as opposed to expenditures made for recession fighting, you would probably think you would have problems with the bond rating. Basically, I want to know which recommendations you are more apt to be comfortable with if we make them through the committee. Would you believe that a large increase by the province towards payment of salaries, which are ongoing type of activity—for instance, we have a whole group of people in who want to have higher pay as part of their lifestyle.

**Hon Mr Laughren:** The public sector?

**Mr Elston:** Obviously in the public sector. Although we are talking about a higher minimum wage as well, that is a different issue from the one I want to isolate. For instance, the nurses have asked for a fairly large increase in negotiations with the Ontario Hospital Association. Would you say that the province making a move towards funding higher salary demands would be seen as expenditures out of control as opposed to the province making arrangements, for instance, to build more sewers or to build more of the 20,000 non-profit housing units or moving to build highways in northern Ontario, whatever? Would you see the difference between those as causing you concern about the credit worthiness of your planning?

**Hon Mr Laughren:** You have asked me directly. I will try and answer, although Mr Christie might be able to give you a better answer than I. My guess would be that we would be judged more critically if we allowed our public sector costs to rise through collective bargaining,

although, to be fair, lots of it can be settled by arbitration as well. My guess would be that we have to bargain in a very serious way with the public sector in the next couple of years.

**Mr Elston:** But in terms of the weight of that type of injection of money into salaries alone or into the support of salaries through benefit payments or whatever, I would see that as probably being more critically eyed at this juncture than perhaps if we recommended a whole series of construction-type activities, such as housing or sewage treatment.

**Hon Mr Laughren:** For one reason, that in one case you are, I assume, trying to help people who would otherwise be unemployed and in the other case you are helping people who are already employed.

**Mr Elston:** Just one final question, then, because this is an important issue for us to consider. I know there is some continuing consideration, at least, of the agency for water and sewerage service provision. Mrs Grier has quoted as saying that you are still considering that agency for water and sewerage services, that it is part of the landscape, so you are looking at it.

**Hon Mr Laughren:** Very seriously.

**Mr Elston:** Very seriously? As it has the potential of removing about \$500 million or so, we will say, from the bottom line of the province's books—

**Hon Mr Laughren:** If you set it up independently, it is a borrowing authority.

**Mr Elston:** Yes, if you set it up independently, it is a whole thing. Are you sympathetic to doing that in order to retain your fiscal flexibility and your rating flexibility?

**Hon Mr Laughren:** No, not for that reason. Do you know what it is like? It seems to me that we talked about separating the capital account from the operating account for deficit purposes to get a number at the end of the budgetary process. I think it would be counterproductive to pretend that the capital part of your budget was not just a big part of the deficit as the operating. I think it would be seen to be so transparent to try and do that, either through a separate agency or through a separate capital account, although people do not tie in Ontario Hydro with the provincial deficit.

**Mr Elston:** Actually, Anne Stewart wrote us a note here. I am surprised to see that.

**Hon Mr Laughren:** It is seen as totally separate from the debt of Ontario, which is now around \$40 billion. Ontario Hydro is around \$30 billion—I am using round numbers—people, in the language they use, do not say Ontario has a \$70-billion debt. They do make that distinction.

**Mr Elston:** I think I had better stop there and give somebody else a chance.

**Mrs Sullivan:** Actually, a lot of the questions I asked were answered. I want to go back to specific revenue decisions. You have made revenue decisions already that have been announced. With some of the discussions we had this morning, it looks, doing some quick calculations as if you will be looking at about \$1 billion to \$1.5 billion less revenue, in the absence of other decisions for the next



udget. I am wondering if you can give us hints on any kinds of revenue moves you would not consider at all. Is there any area that you would say: "No, that is not something we are going to contemplate. We simply won't consider any recommendations coming in that area"?

**Hon Mr Laughren:** You mean up or down?

**Mrs Sullivan:** Yes. The second thing I was wondering: When you are looking at, for instance, the reflationary policies and funding you have announced, do you have a formula or a calculation by which you say, "If I throw a billion dollars into the construction sector, there will be X amount of employment"—I think the construction industry has told us it is about one and a half people for so many houses built. Is there a simple formula, a subsequent adjustment that affects your revenue side? Can you predict, for every dollar you put into construction, the multiplier that will affect your, say, PIT income?

**Hon Mr Laughren:** Better you than me.

**Dr Christie:** A simple formula?

**Mrs Sullivan:** Yes. Is there a standard ratio? There is a standard ratio for predicting revenue that involves growth.

**Dr Christie:** What we do when we look at these things is to try and get a sense—if the spending is actually in construction, then the standard multipliers that are used for government spending are probably too low, so we make an adjustment in terms of the job and GDP multiplier; for construction it is somewhat higher than it is for government expenditure as a whole.

In terms of the revenue impact of that, we generally do not track that through as precisely. For any given expenditure program, normally the revenue implications are looked at in the context of the economy as a whole, as opposed to any particular measure. However, as a very rough, simplified rule of thumb, provincial revenue tends to be, let's say, 15% of GDP; so at times when we try to do back-of-the-envelope calculations, that is one kind of rule of thumb we have used if we create an extra dollar of GDP, revenue being about 15% of GDP, if I have that number right. That gives us some feeling of the feedback there.

For construction projects, and as I say, we have not done a specific piece of work to try to identify this number, I think, because the leakages out of construction are lower, we might see a somewhat higher figure, perhaps somewhat higher than the 15%. It is worth noting, of course, that there are benefits to the federal government in that as well, particularly in terms of the income tax that is collected.

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**Mrs Sullivan:** Are there any Treasury revenue moves that you would not consider?

**Mr Stockwell:** The War Measures Act.

**Hon Mr Laughren:** Is that a revenue move? These decisions are perhaps more collective than they have been in previous governments, but I would have—

**Mr Elston:** I would not bet on it.

**Mrs Sullivan:** Maybe, maybe not.

**Mr Phillips:** Only if they go well.

**Hon Mr Laughren:** No, especially if they go badly, they are a collective decision. I would be hard-pressed, for example, to raise the retail sales tax, the GST having just come in this year, in the middle of a recession. We just made a decision not to—Mr Phillips does not like it when I use this; I do not think he does—we decided not to tax the GST, which in a sense was leaving \$500 million in the pockets or perhaps closer to \$400 million, with decreased activity out there, in the pockets of Ontario citizens that would not otherwise have been there if we had gone along and left the system on top of the GST. Anyway, that is one where I would sure have to be convinced it was a wise move at this point in time.

**Mr Elston:** Of course that would be the case if you did not do other extra things with that revenue bill that allowed you to be more thorough collecting and harvesting the tax money out there. There is a whole series of other initiatives that help you collect more money, so if the net effect is not going to be \$400 million—

**Hon Mr Laughren:** It is what?

**Mr Elston:** The net effect of your announcement is not the \$400 million you said, because what you did was you increased the harvestability of the standing taxes at the same time as you decided not to do something, collect the retail sales tax on the GST. You extended for a year, for instance, the amount of time you left your revenue people for collecting retail sales tax and other things, so you are not going to effect a net saving of \$400 million for a lot of those people.

**Mrs Sullivan:** It is going to cost you \$500 million, but the savings is not going to be \$400 million.

**Mr Elston:** It is going to cost you more for one reason, because you are going to have to hire some people to do the work and there is a whole series of other things there. It is probably just too far away from this, but I just—

**Hon Mr Laughren:** I do not think it would come close to eating up a very big percentage of what we are leaving in people's pockets.

Unless there is a question that is searing someone's soul, I really should get back to the committee, which adjourns at 12:30.

**Mr Elston:** Does it have to be our souls?

**Mr Phillips:** Can I just confirm what we heard?

**The Chair:** Okay, quickly.

**Hon Mr Laughren:** I think I will leave before he confirms it.

**Mr Phillips:** Revenues are going to be up in the 6% to 7% range.

**Hon Mr Laughren:** I do not think I said that. But to be fair, we did not make any changes. They sure would not be up in the 6% to 7% range.

**Mr Phillips:** I thought you said \$46.5 billion.

**Hon Mr Laughren:** That is at the very high end.

**Mr Phillips:** And that the second one was down to about a quarter of a million.

**Hon Mr Laughren:** That was the high number and the low was \$44.8 billion.



**Mr Phillips:** I know that, but I am going by what the Treasury estimates gave us two weeks ago just in terms of your estimate of the economy, real growth of 0.5% and a consumer price index of 6.1%. I assume you are saying that the \$46.5 billion is the high but that the second one is just down, maybe a quarter of a million. Is that right? I am trying to figure out when you leave here what the message is.

Maybe they can just clarify. On the capital account, there is an extra \$650 million you are planning for next year. Is that on top of this year's number of \$3.6 billion, and the non-recurring expenses that you are incurring this year would be UTDC, SkyDome and the retroactive part of the doctors' settlement?

**Hon Mr Laughren:** Yes.

**Mr Phillips:** I do not know; I am just trying to get an idea. Are we talking about \$700 million that we incur this year and do not incur next year? Because you are looking to us to get some advice on the spending side. As Mr Stockwell said, we are kind of dealing with a sandwich with only one piece of bread, because we are not clear on the revenue side yet.

**Hon Mr Laughren:** I will ask Mr Christie to respond to your more specific question. But if you ask what message I would like to give to the committee, it would be that our revenues are going to be relatively flat, our expenditures, because of the built-in nature of many of them, are going to be up and our deficit is going to be up. We would appreciate any advice you have in all three matters: the deficit, any revenue suggestions you have for us in terms of taxes, and any particular advice you have on expenditures either that should be made in view of the recession or should be contained in view of our deficit problems.

If you ask me what message or advice I would like to see come back from the committee—I do not see the committee as an opposition enterprise; I see it as one that would give us some advice we could use. But I do understand the political nature of the committee. That is the way it should be. I am talking about what we would like to see back from the committee, but perhaps Mr Christie could address your specific question. I am not sure if there was any question.

**Mr Phillips:** I do not know yet. You came in and said \$46.5 billion is your upper revenue estimate, the bottom is \$44.8 billion, but I thought there was the middle one, which you said is probably where you are at. That sounds to me like it was around \$46.3 billion. Then there are the non-recurring expenses, the \$400 million for UTDC, whatever you put in for SkyDome, which is secret, I know—

**Hon Mr Laughren:** We do not know yet.

**Mr Phillips:** —the retroactive part of the doctors, and the capital one.

**Hon Mr Laughren:** There is also an assumption we will settle all those this fiscal year.

**Mr Phillips:** Yes.

**Hon Mr Laughren:** I would like to.

**Mr Phillips:** But if you do not, I assume you—

**Hon Mr Laughren:** Then it gets rolled into next year.

**Mr Phillips:** But the capital—

**Mr Elston:** Your deficit then will be reduced for next year if you do not settle it.

**Hon Mr Laughren:** That is correct, and higher year.

**Mrs Sullivan:** And added on to next year.

**Hon Mr Laughren:** Yes.

**Mrs Sullivan:** You have already made some revenue decisions for next year as well.

**Hon Mr Laughren:** It is not magic.

**Dr Christie:** Do I understand your question on the capital count to refer to the \$700-million antirecession program?

**Mr Phillips:** Correct.

**Dr Christie:** Of which some \$40 million is expected to flow this year, and the remainder is to flow next year?

**Mr Phillips:** The \$660 million, yes.

**Dr Christie:** There is a special capital allocation for job creation purposes—

**Mr Phillips:** On top of the \$3.6 billion?

**Dr Christie:** The ongoing capital program has its own growth profile. It is handled through estimates and allocations, and I do not have a figure on what that would naturally become next year. The decision on how much to allocate to various ministries for their capital spending purposes is part of that broader budget process; I do not have the numbers, but I assume they will be available in the budget and in the estimates when they come forward.

**Hon Mr Laughren:** They are coming now.

**Mrs Sullivan:** Just to clarify, we asked this question earlier, I think, when the Treasurer was here before asking whether this \$665 million, which is about what is left of new money. The response was it is new money and would not go through the same process that the other capital funds would. It is sort of a TSF, Treasurer's slush fund opportunity. It is another account that is specifically set aside for the antirecession policies that have been announced. It is new money on top of the normal capital.

**Hon Mr Laughren:** That is correct.

**Mrs Sullivan:** I just was not sure that that is what you was hearing from you.

**Dr Christie:** I apologize if I was unclear. That is what I was attempting to say. The discussion of allocations and estimates was simply to indicate that it is not clear that what would be added to a number of \$3.7 billion because of the \$3.7 billion in its natural growth through allocations could be \$4 billion—

**Mrs Sullivan:** Or \$2 billion or whatever.

**Dr Christie:** Or \$2 billion, but I do not have the number.

**Hon Mr Laughren:** Mr Chair, thank you for this opportunity, because I was fretting somewhat about being asked to be trying to avoid the committee and sharing any of the numbers that we have. That was not the intent; so thank you.

**The Chair:** On behalf of the committee, I would like to thank you for coming and allowing these questions to be asked.



**Mr Phillips:** I would personally find it useful, just because that revenue thing has left me totally confused still in the federal government, you know, the explanation that they gave that you get some here and you lose some there, because I suspect that this will be a centrepiece of the budget—

**Hon Mr Laughren:** Would it be helpful for a one-pager to go to you with that?

**Mr Phillips:** I would find it useful, yes.

**Hon Mr Laughren:** We could do that with no problem at all. Do you want us to send it to the Chair and then we could distribute it to members of the committee?

**Interjection:** Yes.

**Mr Phillips:** I would compliment the Treasury because I think a year ago you made a revenue estimate and you are within 1% of it now.

**Hon Mr Laughren:** What a team.

**Mr Phillips:** Yes. I bet you there is no business in Canada that came that close.

**The Chair:** I have not had a motion to adjourn.

**Interjection:** Shall we meet at two?

**Mr Christopherson:** To give us a full two hours for our discussions, can we make it at 2:15? Is that a problem? Adjournment to 2:15, Mr Chair?

**The Chair:** Yes, we are adjourned until 2:15.

The committee recessed at 1211.

## AFTERNOON SITTING

The committee resumed at 1433 in committee room 2.

**The Chair:** I would like to begin the afternoon session with discussion of the proposals. We really must move along on this and make some definitive decisions concerning what this report will look like, given that this is the last day of hearings. I would like to be able to move through this document, making definitive recommendations to the writing team about which recommendations go where and what we are comfortable with. We will very quickly finish off the recommendations we were doing this morning and then move to the final draft recommendations. I will leave it to Mr Christopherson to lead off the discussion this afternoon.

**Mr Christopherson:** I had read into the record the points on page 3. I believe I finished reading those, and we were just recapping or finalizing our discussion on that section when the Treasurer came in and we took the opportunity to ask him some questions. So if it is agreed by all present, I will move on to the next area.

"In the opinion of the committee, the area of colleges and universities is in desperate need of attention. The economic and human costs of an inadequate system of post-secondary education are becoming apparent in our society.

"The committee would recommend that:

"A re-evaluation and a restructuring of the way funds are labelled and disbursed from the Ministry of Colleges and Universities should take place.

"While the financial needs of students are related to tuition, the bulk of costs are living expenses. OSAP increases should not be solely based on tuition increases.

"The government should play a leading role in maintaining quality and accessibility controls.

"The province should persuade the federal government to eliminate the 3% administration fee on Canada student loans.

"A new system of funding should be devised which reflects the true costs of research and does not remove resources from base operating budgets.

"There should be increased government support for research at Ontario universities.

"A faculty growth fund should be looked at for the replacement of tenure-track faculty members as they retire."

**Mr Elston:** Again, I am at a bit of a disadvantage. Any of my colleagues here can tell me that this short-forming is sufficient to let everybody understand what you are saying. But when you say, "A re-evaluation and a restructuring of the way funds are labelled and disbursed," for me coming off the street without hearing a presentation or anything, that does not mean one bit at all.

When I look at that sentence I think I know what you are telling me. You are telling me that when Colleges and Universities sends money off to Sheridan, it is disbursed for X, so they have to put it in X, or whatever. But this does not read like an instruction to anybody. It is not a real recommendation, if you know what I mean. If you want them to change the manner in which the basic income unit is formulated for college students as opposed to the way it

is done for university students or anything like that, should actually say it rather than being so vague as to either misunderstood or not understandable at all. I think you should be more precise.

That is a general concern, because I think this paragraph should be generally read by people who are interested in the budget and what we have said about it. The other thing I am really concerned about is this: "The government should play a leading role in maintaining quality," which I have no problem with, but it is the second part, "and accessibility controls." Are we getting into the same debate? I thought we should not have been engaged in yesterday about health care accessibility? You were wanting to discuss limitation then. Accessibility controls, again, raise the same flag to me.

We wrestled, and not as successfully, I think, as perhaps we would have liked to as a government, with the whole issue of funding and allowing anyone who is qualified and able to get into university or college. We spent a long, long time trying to make sure that if there were classrooms needed—we tried. There was a cap on the fund that was made available. It was not good enough. We tried to give them a few more grant dollars, which in the end was not good enough to take up all of the demand.

I think you ought, though, to clarify those, because I suspect you do not want that debate to be raging about the government taking a lead role in maintaining accessibility controls.

1440

**Mr Sutherland:** I think Mr Elston has a point on the wording. I think the intent was that one of the ways the government has influence on accessibility, not in terms of limiting it but trying to expand it, is on how you deal with tuition fees. I think it is more the intent on controlling how you expand it, but when you use the word "control," it implies limitations. I think that is a concern, and maybe we could delete the word "controls" it probably would be better.

**Mr Elston:** "Maintaining quality and accessibility."

**Mr Sutherland:** Yes.

**Mr Elston:** Okay. Actually, there are several ways you can militate against broad accessibility. One is tuition, as you said. The other is by not having enough classroom space. The other is not providing enough money for faculty. I see that you have a faculty growth fund and all that type of stuff, but tuition is not the only area. What you are basically saying is, I think, government should be funding to allow all students to attend courses for which they are qualified.

**Mr Sutherland:** Delete the word "controls." I think it is quite clear.

**Mr Phillips:** I am not sure this is what Mr Ward had in mind for his touchdown, I think he described it as. In reality we have not commented on the major recommendations from both the universities and the colleges. I think the universities said they are facing a crisis and are looking



or substantial increased help in the next year, and the colleges had the same one. These words really are kind of kirting that issue. I think when people do read it they are going to recognize it for what it is, which is avoiding the issue of whether you are in support of the universities or not. I think Mr Ward will have trouble describing this one as a touchdown. I would have thought you would want to comment on the recommendations of the need for beginning the implementation of the universities' recovery plan or something like that.

**Mr Christopherson:** I am sure Mr Ward will reflect that he is looking forward to a review after all four quarters, as opposed to after the first snap.

**Mr Elston:** He has already suffered a reversal of nine points. He was going to score a touchdown, which is even; he has just suffered a touchback, which is minus two.

**Mrs Sullivan:** That is right. He is not going to make the cheerleading team next time.

**Mr Christopherson:** What matters is where you are when the buzzer goes off. And we have learned it matters when the buzzer goes off.

**Mr Phillips:** We are talking quarters, not periods.

**Mr Sutherland:** You should not finish the game at the third quarter.

**The Chair:** I am glad to see there is some jocularity left in us after all these hours.

**Ms M. Ward:** That is a good word, given that these are all sports metaphors.

**The Chair:** I am trying to get into the mood.

**Mr Christopherson:** What about the earlier issue? Did that get clarified, the label, the concern you raised on that one? Any suggestions?

**Mr Elston:** I think you ought to tell us what you really want. Let's use plain language. Let's just say, "a re-evaluation and restructuring of the way funds are labelled and disbursed." I am guessing at what you are wanting here, but my understanding is that if a college runs a course it gets reimbursed on the basis of the basic income unit assigned to each student. To run a nursing course, it may be assumed by colleges that it costs \$82 a student a semester, so they get reimbursed on the basis of 40 students in a course at \$2 basic income unit for that course, and that is what they get. Then it may be assumed that in the music course at Oshawa, the number is \$27 a student or something, so they get reimbursed at that level. I assume what you are trying to say is that the teaching of a course ought not to be precisely labelled that it may hinder a college in developing a flexibility to have more students in nursing, for instance, as compared to the music, but still being able to put good, credible courses. It looks like they are so inflexibly bound as to be unable to respond to new course requirements. I guess that might be part of it.

**Mr Sutherland:** I think the concern is that there seems to be a difference of opinion between some of the college and university administrative officials as to how it should be designated and how MCU interprets it should be designated. What we are looking at is some

negotiation process there so they can come to an agreeable way, that they both can say, "This is a fair way of deciding."

**Mr Elston:** Rather than getting caught in a bunch of jargon, which does not mean a lot to us, we should be just saying that the Minister of Colleges and Universities should reassess with the colleges and universities community the manner in which funding is allocated.

**Mr Christopherson:** That is fine, because it really is what we are trying to say.

**The Chair:** Can we have the wording of that?

**Mr Sutherland:** I think you had it very good, Murray.

**Mr Christopherson:** Run the tape back.

**Mr Elston:** "The Ministry of Colleges and Universities should reassess with the universities and colleges community the manner in which funds are disbursed."

That might, just for everybody's edification, be an interesting recommendation, bearing in mind that the auditor has just completed the first full audit at Trent, and I think there is one ongoing at the University of Toronto and there are a couple of others happening. I know there is a bit of a difference of opinion as to just how adequately administration of funds is being carried on, but at least we can go that far.

**Mrs Sullivan:** Once again, I do not see precision addressing the recommendations that have come from the groups who have appeared before us. We saw, for instance, on the university financing issue, the Council of Ontario Universities, Ontario Confederation of University Faculty Associations, the Ontario Federation of Students coming forward in virtual agreement on the need for a \$410-million injection over a four-year period ultimately added to base, and on top of the usual increases in base funding there is no response at all and no recommendations relating to that.

Additionally, on the OSAP issue, there were very specific recommendations relating to OSAP, and if this budget recommendation is going to mean anything it should say the committee recommends increased funding of OSAP, to expand programs to include living expenses. One of the things we heard from everybody was the need to address the changing nature of students because of changing economic issues, and including in the consideration of expanded OSAP services the mature student and special circumstances there. Once again, no mention of colleges here. I would be embarrassed to submit this with no mention of colleges other than in a very nebulous first paragraph. Colleges are not here.

They are observations. I am not happy with it.

1450

**Mr Elston:** Just a point on the item where, "The province should persuade the federal government." I am sure everybody would like the province to persuade the federal government, but bearing in mind that that is unlikely—these people are bent on doing anything they can to cut back on a lot of areas of financing—are you as a caucus committed enough to the issue of dealing with the 3% administration fee on Canada student loans that is being charged by the feds to indicate that the province should pick that up? It is a hope, I guess, but it—



The 3% administrative fee charged on Canada student loans is something that we would all like the province to persuade the feds to drop. Bearing in mind that they have become increasingly unresponsive to anybody who wants things like this removed, are the members of the government caucus committed enough to deal with this issue that they would recommend a makeup by the provincial Treasury?

I just want to be clear because I am not particularly in favour of supporting a whole lot of things that tell the province that it should persuade the feds, because even if you think they should, that does not do much for me nor does it do anything for the issue. I would prefer that you say perhaps something like, "The Ontario government should respond to the losses experienced because of increased administrative charges levied against students by the federal government," if you want. That is really flexible, but it also gives the sense that we think the province should consider maybe doing something about it without telling it what.

**Mr Christopherson:** What are you suggesting?

**Mr Elston:** Just that the provincial Treasurer should deal with the losses experienced by the 3% administrative fees levied against post-secondary students by the federal government. If all they want to do is negotiate with them, that is fine. If they want to persuade them to change it, fine. Maybe they want to go further and say, "Listen, we cannot countenance a 3% reduction in the assistance available for post-secondary education through Canada student assistance program."

**Mr Christopherson:** We have been through most of our document and there is still some fresh territory. I have got one more at the table that is only a page and a half. We are prepared to respond, to give our revisions to the first and second and we are also prepared to have a quick caucus this afternoon to respond to what you are raising now. That is a tight time frame, but that is what we are prepared to do, if you would like.

Next the committee is concerned with the—

**Mr Elston:** Sorry. The increased government support for research, are you looking as well still at a partnership with private business in the research area or are you looking solely at research being sponsored by the provincial government? There has been an attempt. In a real way the feds have done things to a larger extent with a huge private development initiative in terms of funds in the university sector. We had as well, through the tech fund, in a couple of other places married private development with university research facilities. In fact that was one of the requirements for funding, that you had to have a tie-in with a provincial university for research if you were asking for tech funding as a private organization. Are you excluding private industry participation in the research funds or are you looking for the partnership to continue? Because increased government support—

**The Chair:** With respect to increasing support for research funding, when the private sector is involved and a new development is made and a patent is claimed on that, who controls that?

**Mr Elston:** There is usually a development contract entered into which actually assigns royalty rights depending on the amount of money put in among the parties, including the university if it happens to be a participant in the process. It may be, sometimes, that the research is actually building on a patent already owned by a private organization, or a private inventor even. Usually the agreement which is arranged—I think it was always arranged through the Ontario Development Corp for the disposition of funds—also dealt with any returns made on the research development for product delivery.

**The Chair:** That is important because one of the criticisms of research and development in Canada and Ontario is that most of the multinational headquarters companies that any developments made by their branch plants in Ontario where belong to them, and in fact, if it is made here, funded by Ontario in this case, we could be funding a branch plant doing research here and then pay royalties to the home office, which may not be in Canada.

**Mr Elston:** Oh, sure, and that was always a concern when we were dealing with these contracts, that we were not sure that the research that went into the end product which was marketed showed some return, and we tried to bring that into some of the contracts. I think probably at some stage, if you wanted to as a committee, you could probably go in and take a look at some of the contracts that were signed and see some of the provisions where we were afraid of a couple of things: One was the end point of royalty delivery, but also the sale, sometimes, by Canadian developers of technology in co-operation with the university sector—sometimes those would be sold to a foreign owner or could be sold to a foreign owner. We were really worried about good technology being purchased with—

**The Chair:** Not developed here.

**Mr Elston:** Yes, and then ending up being sold through another area.

**Mr Sutherland:** If I may comment on Mr Elston's specific concerns, I do not think he should look at that recommendation being mutually exclusive. I think we recognize that it is everyone's responsibility to participate in research and that this should not be seen as discouraging the private sector. I think everyone has to increase his or her support and there seems to be some concern that the government increase its support and hopefully that provides leadership for the private sector.

**The Chair:** Have we finished discussion on this question?

**Mr Christopherson:** "The committee is concerned with the structural dimension of the present recession. Unlike previous recessions, the committee feels the present economic downturn must be addressed in a way that deals with the structural component."

"Therefore, the committee recommends that:

"The government should provide financial assistance for retraining of the workforce. Such training programs should be implemented in partnership with labour, business and government."

"At least as a short-term measure, government should concentrate on training and skills development programs."



to facilitate labour mobility, particularly into areas of protected economic growth.

"The government should ensure more active investment activities of pension funds in Canada, and move to discourage pension investment outside the country.

"Access to benefits and entitlements for workers that are conferred by statute should be certain and assured.

"The government should take steps to ensure that R and D incentives provided to industry are used for the purposes for which they were allocated.

"Incentives should be created for high technology to locate in Ontario.

"The government should reappraise the policy of deregulation in the financial services sector.

"The government should use the budget speech to signal its intention to reform the employer-based pension system."

**Mrs Sullivan:** On each one of these things there are just sort of bizarre approaches. "The government should provide financial assistance for retraining of the workforce." There already are substantial retraining programs that are offered with delivery through various places, frequently through the secondary schools, sometimes through community colleges, sometimes in the workplace, and in some cases with labour partnerships and so on. Do you mean additional financial assistance? If you do mean additional financial assistance, to what level?

I look down further, and I see a recommendation that, "The government should ensure more active investment activities of pension funds in Canada." I am not sure that is a budget decision, but on that side there ought to be at least a description of where you see that and how you see that funding being used. If you see this is a venture capital fund, what about fiduciary responsibilities? The move to discourage pension investment outside the country has not even been discussed in committee and is not a provincial responsibility as far as I recall.

**Mr Elston:** What is this?

**Mrs Sullivan:** Limiting investments outside the country.

**Mr Elston:** I have more to say about that, but the regulation is basically done by the feds, and they have actually opened it up over the last couple of years by their move to allow pension funds in Canada to increase their percentage investment all the way up to 20% of their holdings.

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**Mrs Sullivan:** Then as we go on, I wonder what evidence we heard or that you have that would lead you to make recommendation 5 relating to R and D incentives. Which R and D incentives are you talking about that are not being used for the purposes for which they were allocated? Once again, we had no discussion of deregulation in the financial services sector. Which particular policies are you referring to? We have had no discussions at all relating to the pension system. What kinds of reforms are you talking about? That is it for now.

**Mr Elston:** The pension item captured my imagination because of the difficulty in our telling the feds not to allow the money to go out of the country. They make the regulations about whether or not you are registerable for the purposes of deductions under your income tax returns,

and it is they who sort of set some guidelines for the registerability, in the federal sense, for your pension plan. So we had some difficulties practically in telling our Treasurer to do something about that.

It is also a very difficult practical problem for somebody to say, "Invest all of your money in Ontario from pension funds," because the pension funds have become very large market consumers now in Ontario. We only have so many places in which to invest our funds. In fact the pension managers—if not to a person, at least in large numbers—had agitated to get permission to go outside of Ontario so that they could increase the possibility of better returns for a more varied portfolio.

They have a trustee relationship and they have a fiduciary duty to expand to the best degree they can the return on their pension funds. So be careful of that one.

It is practically probably an impossibility, a catch-22 for you, because you can say: "Invest in Ontario. Do not go outside and get a possibility of bigger returns." Then you have to deal with the issue of lower return on the capital that the trustees hold in the pension fund.

I have a problem with deregulation in the financial services sector. There is no indication that I have had that Ontario has moved to deregulate the financial services sector. There may be a blurring of traditional areas in which people participate in the financial services sector, ie, banks straying into insurance business, insurance into trust companies, and trust companies into other areas of service provision. But I will tell you that they have to file a whole bunch of forms about their solvency from a financial point of view. They have to do a whole series of things to get permission to do or transact certain types of business. They have to comply with the percentage of their asset holdings to keep registered to carry on business in Ontario.

So I am concerned that you are thinking something has happened, ie, that there is a laissez-faire type of format with respect to financial services in Ontario that does not exist. Blurring of roles has occurred, but deregulation has not, at least from my sense of deregulation, but I may misunderstand what you are getting at.

**Mrs Sullivan:** Do you know what you were thinking about, David?

**Mr Christopherson:** Yes, I know the discussion we had, and in order to give you a proper answer I would like a chance to consult with our caucus and actually check on some of the material that we used in arriving at that, before I respond so that I can give you a full answer.

**Ms M. Ward:** I just want to make some comments about some of the things you have mentioned. About the financial services, some of that, the deregulation, of course is federal. That does not mean you could not necessarily have provincial legislation replacing some of that. But I think there is a concern there among a lot of people about self-dealing between different arms of the same family of companies.

On the R and D there have been a lot of scams, both in provincial and federal research and development projects to encourage it, plans that may have started out with a very good intention but without sufficient controls. I cannot



remember now. There was some fellow in Willowdale that was in the newspaper for years. I think that was a provincial one. There was also the supercomputer which was a federal one in Nova Scotia. So the good ideas sometimes get taken advantage of in a way that was not intended. That is our intent there.

**The Chair:** We had a private individual, Carlos Leite, make that recommendation because of what he saw within his own firm. I do not know how far you want to extrapolate that.

**Mrs Sullivan:** I would just be very cautious. I could certainly not support, on the basis of what we have heard before this committee in terms of our work, any indication that there is an abuse that is widespread enough to require this kind of a recommendation.

As I recall, most of the R and D incentives that have been introduced recently have been incentives for joint work between industry and universities through the centres of excellence and through the technology fund. I cannot tell you how offensive it is to see this kind of recommendation when there has been no testimony before us. We have not been investigating that kind of thing. This amounts to responding to a charge when the charge has not been made.

**Ms M. Ward:** I see that as a caution in setting up any new programs, that the caution be there that it not be subject to abuse.

**Mr Elston:** I have a point on the first paragraph, or the first bullet point rather, which says, "financial assistance for retraining of the workforce."

I want to just indicate for general interest that I know the former government had allocated a certain, I think it was a fairly large amount of money to the Ontario Federation of Labour to undertake particular studies to look at what could be done for workforce retraining and a whole bunch of other things. I know it was talked about and I am almost certain it occurred. I am not positive; I could stand corrected. But it is not like there has not been a fair bit of money put out there to study retraining. In fact, through the aegis of the Premier's Council on technology, whose membership, at least some—I think Gordon Wilson was one of the members on that committee—there was a lot of work done towards the issue of retraining of labour and actually some allocation of money there.

I do not want people to get the sense that nothing has been done and that there was not a lot of thought put into this whole issue of retraining and development of skilled labour before. In fact we still seem to think that government kicking in money at this stage to take a look at it is going to be of any substantial help in moving the issue forward. I think we are past that. It is time for us to determine just what the partnership arrangement ought to be. I understood from talking to Barbara and Gerry that there were at least a couple of people who were here earlier suggesting that business had a big role to play in helping to co-ordinate the retraining of labour, or training if not retraining labour, to address the needs of skilled workers in our current situation.

I am not sure what this says about that partnership that some had urged us to consider in the course of our hearing and I see a lack of—although you talk about a partnership with labour, business and government, it does not tell anything new. It does not recommend anything particularly new, nor does it suggest we should build on where we are.

**Mr Phillips:** I am on a slightly different one, but the number that struck me in the report was 120,000 jobs gone in 12 months.

**Mr B. Ward:** On a point of clarification, Mr Chairman, to perhaps address some of Mr Elston's concerns here—

**Mr Phillips:** I will wait for mine then.

**The Chair:** Go ahead.

**Mr B. Ward:** The concerns that you had with the first item—we are not saying that the previous government did not implement skills training programs or provide financial assistance for those types of programs. But to be quite honest, I am parliamentary assistant to the Ministry of Skills Development, and in the short time that I have been in that capacity and have had opportunities to go out in the province and talk to the various organizations, I have not found there to be the great degree of co-operation between labour, business and government that there should be. We are saying that the government should provide assistance retraining at work, but such training programs should be implemented in partnership with labour, business and government. That is what we are trying to build from that.

1510

**Mr Elston:** I am just telling you, though, the effort has been to try to attract a partnership. In our apprenticeship programs and other things, we were trying to push the realization that they should get together.

**Mr B. Ward:** Which is what the Premier's Council is all about.

**Mr Elston:** Yes, or you are just not going to end up with a real product. Unless we can key in on something that would help move the issue forward to address the problem in developing a partnership, we are not serving anything more than maybe ourselves; but we are not serving the interest of resolution of the problem. That is really what was getting at.

**Mr Phillips:** Surely one of the major issues that is in the report—I think 120,000 jobs have disappeared in the last 12 months and 110,000 were manufacturing jobs, and these proposals probably will do little over the short term to help that, training and all those sorts of things. I would have thought that we would want to have a recommendation in here about the fact that we are in a free trade agreement now with our major trading partner, 110,000 manufacturing jobs have disappeared and there is a need for some fairly urgent activity over the next—

**Mr Elston:** At least two committee jobs have disappeared as well.

**Mr Phillips:** That is right. What per cent is that? That is like 20% gone.



**The Chair:** A free deal. It is called free trade.

**Mr Phillips:** I would have thought we might want to have a fairly strong recommendation on the need for activity, particularly in the manufacturing sector, to ensure that our manufacturing sector remains strong.

I do not what that is, because I guess you will use Algoma and de Havilland, I suspect, as kind of the lead horses, but there is no sense in us trying to say what the proposals will be but to say that we are quite concerned about the job losses and the need for urgent action over the next 12 months to stem that tide.

**The Chair:** The question really is I think, just as an observation from here, the short-term job losses are being addressed in construction and those sections, and maybe it is the intention here to try to get at setting a foundation for long-term growth as opposed to trying to make an immediate impact. I do not know. Am I reading—

**Mr Christopherson:** You were at the same caucus meeting I was.

**The Chair:** I had to leave before we got to that point, member.

**Mr Christopherson:** We will take a look at it.

**Mr Elston:** I can speak more clearly. I was not at that meeting.

**Mr Phillips:** Like eyewitnesses to an accident.

**Mr Christopherson:** Everything is perspective.

**Mr Elston:** I do not mind just addressing these series of recommendations by saying, while we note the need for immediate action and in fact have recommended immediate steps for helping with the recession, we also note that there is a structural dimension to this recession, and then go on with this section. I just highlight the fact you have other immediate recession-fighting items in the construction section or wherever you are going to put them, but that is fine, just as long as we make it clear for whoever is reading it, that is all.

**Mr Christopherson:** That is great.

**The Chair:** We should take out that next page.

**Mr Christopherson:** That is a good segue in to a question. I am going over old turf but things may have changed somewhat. We had originally talked about the possibility of having some recommendations, as many as possible but some where we all agree, so there is unanimity to add some weight to it. That is why we are taking the time to try to talk things through as opposed to us saying, here is ours. You don't like them. You write your dissent, and we are done in 24 hours.

However, there was this concern that since not all members were even willing to participate, based on what they saw as overriding concerns, that seemed to be out the window. But learning my parliamentary procedure, if things maintain for the balance of the day, there is still that opportunity. It is those who are present and vote who decide what carries and what does not and how.

In light of that, is it correct for me to assume there are a number of areas and there is still the possibility that we will be finding unanimity, or are there other factors that will prevent that from happening and I should be aware of

that? I ask that in the same light, Murray, that you asked the question earlier about how much time you should spend. Could I get some guidance from you on that as to where you are?

**Mr Elston:** At least from my own point of view—Gerry and Barbara can speak on their own behalf—there are some good parts to this thing.

**Mr Christopherson:** That was hard to say, was it not?

**Mr Elston:** I was going to say there was good work that went into it. There has been a lot of work that has gone into it and there are things in here with which I agree, in fact which I would be a proponent of. When we get just to talk about the phase 2 support for the Social Assistance Review Committee and things that we will revisit, I am a proponent of that type of thing. I think I quite clearly have asked, as a member of the committee, even when this report comes out in its entirety, if there are things in there I do not agree with I will acknowledge it, but I will say there are some good things that have happened here.

I think I can be fairly precise for you right now, David, and say that I am concerned that it is not as specific as I would have preferred it to be, that I think there are too many of the recommendations and observations sections which have been proposed that are soft policy statements as opposed to recommendations from a financial point of view.

I think we are charged with a much tighter job than merely indicating a preference that government consider a particular policy line. That is I think what you would do if you were in the social policy discussions or in the resources development committee discussions or things like this. We are I think being asked by the Treasurer to advise him what a Legislative Assembly team of members from all parties think he should think about in terms of specifics to deal with the construction of his budget.

This is not a soft policy piece of work that we are doing, and I find this one too soft. There are lots of things in here that I agree with, mind you. That is why it is hard for me to respond. But I just do not think it is a tight enough piece of work.

**Mr Christopherson:** Let me ask a pointed question.

**The Chair:** Let Mr Phillips respond first.

**Mr Phillips:** One of our challenges, and we have talked about it a lot here, is the old Agenda for People. Frankly, the problem we are put in here is a lot of this, on or off the record, is kind of waffling and massaging, is the best term I can put. It puts us in a very difficult position because, on the one hand, you ran on this basis and defeated us, and then—as I say, I think I can take at least 11 of the 13 recommendations and indicate here where there is either some or significant backing off.

So we are put in the position of endorsing the government backing off on its promises. We are in almost a no-win situation. I do not know how normally one handles it because, as Murray said, there is a bunch of stuff in here that we are very much in agreement with. I am very much in agreement with. The problem is it is going to be challenging once we see the whole thing to say, that paragraph, yes, that paragraph, no, that word, yes, that word, no. We



are put in a very challenging position, particularly when a lot of the recommendations—and I know what maybe your objective is—are not the home runs or the touch-downs.

**The Chair:** I see my role here as trying to bring together the best possible report for the Treasurer. I know the deep angst that you have about An Agenda for People. I wonder at this point, though, if we were to turn around and recommend everything in An Agenda for People to Floyd and say, "Here, this is what we want you to do," whether in fact we would be really doing our job in the sense that we have to take into account what is going on and I think we have to be real about it, be realistic. I will leave it at that. I hear what Gerry is saying. I am just throwing that out.

1520

**Mr Elston:** I can understand where you are coming from. People who construct budgets have to be realistic, and although Mr Nixon, when he was doing this business, thought he was being realistic, he took an awful beating from people, and our former Premier took an awful lot of beatings from individuals who said, "You said you would fund this and you have not funded this to this extent."

Just understand that realistic assessment of options will lead some people to say that you—in our case, they said that our Premier lied and that remains with us. While you want to be realistic, some people also want you to address the issues in An Agenda for People, for instance, around the 60% funding. That is a big issue because it hits about three or four different sectors of our public:

1. The property taxpayers who believe that they are totally under siege and almost under water, as far as it goes, with respect to their ability to pay property taxes.
2. The elementary and secondary teaching professionals who believe that there has not been enough emphasis on funding appropriately the levels of education.
3. The trustees who believe that they have been put in a no-win situation of introducing provincial programs while having to tax or at least levy against the assessment rolls taxes for the payment of that.
4. The general sort of administrators, if I can describe them as that, at both the county board level and the county council or regional areas who have to levy the taxes and get the kicks on those.

You can see how that item in An Agenda for People is crucial in some ways to the way those people think the world will turn for them. In fact, it speaks to the issue of whether or not there is going to be a new partnership arrangement between government, school boards and municipalities.

That is why if you back away from that, it would appear that you are not going to be entering the new partnerships you want to be in and you are not going to be entering a new era of property tax assessment or property tax study which would say the property taxes should not pay as much for education. That is why we are in the dilemma of not having a very clear recommendation on that 60%, or why we are having a problem with respect to the clear recommendation coming from us on funding for phase 2 of SARC.

**The Chair:** Can we move to the final recommendations, having said that, and try to revisit some of the things and have some completion one way or the other?

**Mr Christopherson:** Yes. Again, I do not want belabour this, Mr Chair, but I need to be comfortable. I fully respect and appreciate your role. It was not that long ago that our caucus was doing exactly that and became very good at it obviously. I was not—

**Mr Elston:** We are prepared to allow you some training time, if you wish it.

**The Chair:** At least five years.

**Mr Christopherson:** I appreciate that. In recognizing that reality, I am in no way suggesting it is wrong or inappropriate. By the same token, we do not want to spend the whole lot of time this afternoon on things that are spinning wheels, if you will. We have looked at other reports, so we also have a sense that we want to be different, we have made that commitment. But you still research what has been done and how and the essence of it, and I think needs to be said.

I am not going to get into a long defence, but we are not that far off, and I think we have made some improvements in terms of what the majority of this committee is prepared to say to a Treasurer when you are in a majority government. We are comfortable with that. Both of us understand the roles and what is happening.

We did note that in at least one of the reports, and I think it is something that impressed us when we did our research, there were some recommendations where there were assessments and it said "denotes unanimous support." In the context of SARC I think that it was one more piece in the moving lobby. Where that can happen, that is what we are looking at. But if that is not in your agenda, then I think we need to be apprised of that. Again, it could all change with the entrance of one member who is not prepared to accept unanimity on anything.

**Mr Elston:** We are never, as you rightly identified, everybody's attention yesterday, going to have unanimous consent because two of the members—the Conservative caucus is not attending these meetings, so we cannot put a unanimous consent to it.

**Mr Christopherson:** Could I question on that? I am asking this of anybody that can help me, including Mr Decker, the clerk.

When you vote on it, if we moved a motion that all of our recommendations be adopted as last presented, the words to that effect, and it carried, that would then become the committee report, right? Then there would be the presenting report and it would be very clear.

If, however, we had agreement on a number of amendments between us that we were prepared to identify, we could move a motion that accommodated that. Is it not what the vote is and how it carries that dictates what the report would look like, or—and I am being very sincere—is it the tradition and custom of this place that you would not go that to a third party when it is a three-party system? I do not know. I am asking.

**Mr Elston:** No, I think that you could say that members attending agreed that this section should be included.



that they will make the point quite rightly that they decided not to be here because they objected, for whatever reason they objected, and that no part of this majority report could be construed to have been a unanimous deliberation. If they are not attending and they do not intend to attend, then that is their problem. The difficulty is that you cannot go ahead, though, and still—

**Mr Christopherson:** I think that probably helps us in terms of understanding what the rest of the afternoon may or may not look like. That does not change our sincerity or our willingness, but it does recognize an end result that perhaps is less than our ideal.

Good. That is it then, Mr Chair. That entire report in terms of the areas that we have just talked about now, we are prepared to caucus on and give a response to. What I would like to do now is perhaps take us right back to the beginning for part I and walk through areas where we have made some changes and accommodated some of the concerns raised by our friends on the other side.

**Mr Phillips:** Maybe before we do that, I had some questions yesterday on some things, and I would not mind clarification on them if I could.

On page 23—I am looking at revision number 2, I suppose it might be the same in revision number 1. I do not know—at the top of the page: “55% of Ontario’s health care budget is spent on hospitals.”

**Ms Anderson:** The question about 55% of Ontario’s health care budget, the numbers that come from the Ministry of Health are actually not—it is 55% on institutional care, not just hospitals. It is hospitals and psychiatric hospitals and nursing homes rather than just hospitals on their own.

**Mr Phillips:** When people think of that, they think of hospitals, and I think it is more like 43% or 44%, something like that.

**Ms Anderson:** We could just put that 55% is spent on institutional, or we can get the figure.

**Mr Elston:** Why do you not just mention that 55% is spent on hospitals, psychiatric hospitals and nursing homes? Everybody knows what that means.

**Ms Anderson:** Yes, it can just be expanded to what it is.

**Mr Elston:** Sure.

**Mr Phillips:** The next one is the general agreement among presenters. I went back over all that and I honestly could not find any presenter who said that the health care system did not require a greater portion of the provincial budget.

**Ms Anderson:** The Ontario Nurses’ Association, I think, said that, but you are not likely to find any of the others.

**Mr Phillips:** I do not think so. I think the ONA said that hospitals did not need any more. Honestly, I could not find any and I know the ministry never said that. I am not sure we have yet got the estimates they promised to send. Have the Ministry of Health estimates arrived yet?

**The Chair:** No.

**Mr Phillips:** I went back through all the presentations.

**The Chair:** I could see if they are coming in today.

**Mr Phillips:** They may be, yes. There is half an hour to go.

**The Chair:** Do we want to discuss that point now?  
1530

**Mr Phillips:** My problem is that I listened carefully to the Ontario Hospital Association, the Ontario Nurses’ Association, the minister, the public health people and the Social Assistance Review Committee people, and I do not remember any of them saying that.

**Ms Anderson:** What the ONA said was that this union is on record for the last five years that it does not believe its industry is underfunded.

**Mr Phillips:** The hospitals.

**Ms Anderson:** And if one third of the public purse in any given industry is not adequate, there is something wrong. In effect, they were saying this industry should not be funded to a larger dollar degree. I guess that is the whole health care industry.

**Mr Phillips:** I do not think the evidence supports that. That is all.

**The Chair:** Is there some consensus here that maybe we should change that and say that “the ONA presentation said the health care system does not require a greater proportion of money” and just leave it at that, or do you want to take it out?

**Mr Phillips:** I would suggest it come out, because later on, on page 24, it says, “The ONA are seeking a greater share of the hospital budget and presented evidence”—I think they expressed the view that there is sufficient money in the budget. I am just cautious. I do not remember the evidence being presented that there was.

**Mr Elston:** Actually, quite honestly, I think they were using this forum as a pre-negotiating forum as much as anything else, to try to prevent the hospital association from coming to the table and saying, “Well, you know, we don’t have the funding from the province so we can’t honour a big request for settlement.” I think we have to allow ourselves the fact that that presenter had more on her mind than just trying to help us out with pre-budget deliberations for the Treasury.

**Mr Phillips:** They may very well be right, but I would hate for somebody to come to me and say, “What was that evidence?” I think she expressed a strong view. As I say, they may very well be right.

**The Chair:** Let me go back. What is the will of the committee on page 23 about, “There was a general agreement among presenters that the health care system did not require a greater proportion of the provincial budget”? Do we change it to the ONA, do we leave it in, or do we take it out?

**Ms Anderson:** The whole paragraph?

**The Chair:** No, just that line, because the next one says “The ministry”—there is no discussion on that.

**Mr Christopherson:** We have not had a chance to respond to these. I think you will find that we were going to suggest that that be attributed, if that is what someone said, as opposed to the committee saying it, that sentence. To say there was general agreement that there is no more

money at all needed in the health care system, I do not know that that is the position of this committee. If it was said, as we have been through that argument, it should be attributed, if it is an important opinion. But I certainly do not think this committee is making that blanket statement that there should be no more money in the health care system.

**The Chair:** The way it stands now, we are.

**Mr Christopherson:** I know. That is why I am raising the concern that we have with letting that stand.

**Mr Elston:** Or else you can just say "there was opinion expressed that," if you want to do it that way, or you could just say "the ONA presenters suggested that."

**Mr Christopherson:** If we attribute it, we are fine, but it is not a committee position, as far as we are concerned.

**Mr Hansen:** And it was not a general agreement.

**Mr Elston:** It was one view. If you attribute it, if you just say the ONA position was that no new money was needed in the hospital sector, you are free to go.

**The Chair:** Okay. Are we happy with that line now? Mr Phillips, you were making comment on page 24. With the change on page 23 and the wording change on page 24—

**Mr Phillips:** My point was that I listened carefully to the brief, and they may very well be right but I did not see any evidence. I would think it should be, "The ONA are seeking a greater share of the hospital budget and expressed the view that there would be sufficient moneys in the budget to meet their demands."

**The Chair:** Do we have any problems with changing "presented evidence" to "expressed the view"?

**Mr Christopherson:** They did not bring evidence, so we do not want to want to—

**The Chair:** Should we go to that last page of recommendations, the ones that were just handed out now that I have lost?

**Mr Christopherson:** I have jumped us ahead. We did not do part III, did we? There was a page and a half to do. My apologies, Mr Chair. That document still needs to be circulated.

**The Chair:** Why do we not just read that page and a quarter and come back to it in two minutes. Just read through it, all of it, and then we will come back.

**Mr Christopherson:** "The committee is very concerned with the severity of the current economic recession and its impact on workers, families, and businesses in the province. High unemployment rates, household debt burdens and personal bankruptcies are hurting many Ontarians. At the same time, extremely high interest rates and exchange rates, along with sagging consumer confidence, are affecting business investment and corporate profits. Finally, the committee would like to highlight the current budget deficit, which stands at \$2.5 billion.

"Therefore, the committee recommends that:

"The provincial budget should reflect the current state of the economy, and, in particular, the present recession."

**Mr Elston:** Does that mean the budget should be anaemic or what? What does that mean? Can you tell me?

**Mr Christopherson:** If you take a look at where it is flowing from, "Current State of Affairs," I believe, is subheading of the report text that this is flowing from. We wanted to reflect on it. We wanted to make a comment. We did not want to ignore it. We thought this was consistent with positions that have been taken in other economic times in terms of setting the stage, setting a tone. In referring, I think, to the 1989 or 1990, when there were better times but concern about expenditures. We have a different time now and different concerns. We did not want to be motherhood about it, but we said that not to do anything here may be inappropriate. We think this sets the stage appropriately early in the draft, and that is what we meant to do. I am not suggesting to you that it is meant to do anything more than that, but we felt that should be done.

**Mr Elston:** If you are going to make a recommendation, what you probably mean here, I suspect, is that the provincial budget should set forth an aggressive plan for recovering the Ontario economy from recession, or something more specific. Maybe "aggressive" is the wrong word, but do you not want a recession-fighting budget basically? This does not tell me anything. It "should reflect the current state of the economy." What the devil does that mean? If I happen to be a businessman in downtown Kincardine, reflecting the current state of the economy means that I am probably cutting back my inventory, have probably laid off some of my staff, I have probably taken a personal cut in pay. Does that mean we want the budget to be cut back in spending size so that we can reduce taxes? What does it portray for other people?

1540

**Mr Christopherson:** Okay, fair comment.

**Mr Elston:** I think you really do mean you want the budget to be a recession-fighting document or recession-addressing document.

**Mr Christopherson:** Basically, what we are saying here is that we are in a recession, we have budget deficits that we are all trying to grapple with, and that that has to be considered. We are not in a time of boom. It is not a time of trying to do everything in one shot. I realize it could be partisan, but we happen to believe that no matter how you look at it, you are going to come to that conclusion. As opposed to a year in the past when the previous government had felt that deficit-cutting and a balanced budget was the priority and said that, if you looked at the time, I am sure it looked rather motherhood and did not really say anything when you were in the time. If you go back to the document even now, with changed times, that phrase makes a great deal of sense. It sets the tone. It is the environment in which the budget was considered. This is problematic or if there is a way you can improve it, we are very flexible. We just felt that to say nothing was inappropriate.

**Mr Elston:** If I might respond just for a second, it is a different exercise, though, to tell the Treasurer that we ought not to have a deficit, which was really the p



ade by the previous committee's report, I think. It meant could still spend if he wanted, but every time he spent should also be sure he had the revenue to deal with it the way or another; either he cut other programs or he raised taxes. The committee knew full well, when it wanted to achieve certain things in its budget recommendations, it was to be seen in all efforts to encompass a balanced budget. That is a pretty definite index.

Here, though, it is not precise enough to tell me what it says. Does it say you do not want the deficit too high? Does it say you want the deficit higher because it is a recession? Do you say you want the budget to do some economy priming? I think you are being too cute, David, in the sense that you are being too nice with the words or too fine with the words. You should just say what you mean. I think it is that you want this budget to reflect the need for the government to become involved in easing the effects of the recession on the economy. That may be even a little more precise. Maybe that is even not bad wording, you want to use it.

**The Chair:** How do we like that wording?

**Mr Christopherson:** Can I hear it again?

**Mr Elston:** "The provincial budget should be formulated to ease the effects of the recession on the economy." I am not even telling you to eliminate the recession, just easing the effects of the recession on the economy, if you want. It is still pretty general, but I think that gives you the framework.

**Mr Christopherson:** Let us take a look at it. It should not be a point of contention. I think it is just a question of selecting what needs to be said.

**Mr Elston:** Remember, as much as it is being printed in the Treasurer, we are also printing this for other members of this document, interested observers.

**Mr Christopherson:** We took to heart what you said the other day about a couple of clauses, where it was being looked at south of the border and other investment areas. That is part of the responsible aspect of what we are trying to inject into this.

**Mr Elston:** All I want to advise you is that for us, having been involved in the discussion, this may say quite a lot. For somebody who has never heard one piece of evidence or heard any of the back-and-forth, to-and-froing, it does not mean a lot. Do you see what I mean?

**Mr Christopherson:** Yes, your point is well made. I will gladly take a look at it.

Next: "The committee is of the opinion that, while a number of factors have led to the current economic downturn, the policies of the federal government are a significant cause of the homegrown recession. The committee wishes to draw attention to the tight monetary policies of the government of Canada, not for the purpose of pointing fingers, but to foster an understanding that continuing this course will lead to further economic difficulties.

"The committee, therefore, recommends that:

"The provincial government should call on the federal government to ease its tight monetary policies, which will, in turn, assist the economic recovery."

Next: "The committee is encouraged by the number of presenters that have indicated the likely improvement in economic performance during the second half of 1991. However, lower interest rates and an easing of monetary policy is a significant assumption in all forecasts. In addition, the Gulf war remains an uncertainty in its effect on the economy."

I do not believe we had a recommendation; there was just that statement, that observation.

Last, on that page: "The committee applauds the initiative taken by the previous as well as the current provincial government to consult with native peoples on a variety of issues. The process of consultation has been timely and, more importantly, productive.

"Thus, the committee recommends that:

"The provincial government should continue to consult and negotiate with native peoples with the belief that native peoples have legitimate grievances that must be addressed, such as land claims, education, economic development and social issues."

**Mr Elston:** I agree with all that, but what does that do for us as a budgetary document? If we were dealing with a social policy committee report, that is a good conclusion, and I thank you for mentioning us as well. It would even be good if we were doing a resources development study of the management of forests or commercial fisheries or things like that, but what does this tell the Treasurer? He does not directly consult. He may in the end, when they get close to coming up with settlements, provide some financial assistance, but I am not sure this tells him anything as a pre-budget document.

**Mrs Sullivan:** I remember looking at the Union of Ontario Indians document. I think their requests added up to about \$79 million, none of which is addressed here. One of the major portions of those requests related to housing initiatives that were costed. There were several other issues; all of them were costed, relating to social programs and so on. I just do not think this is advice to the Treasurer relating to the document that was presented here.

**Mr Christopherson:** We take what you say very seriously. I think we were crafting this on the document, as well as in light of some of the announcements that were made before the House recessed, where there was a fair bit of movement and, I believe, some financial recognitions. The reason we put in the acknowledgement to the previous government was that the minister did that, and rightly so. What we wanted to say was that the important starts had been taken, the steps in the right direction. We think we have continued on that and we want to build on it, and that is what we are trying to reflect.

**Mr Elston:** Just to change it very slightly, perhaps we should say, "The committee recommends that the Treasurer make financial provision in the budget to allow the continuation of consultation and negotiation with Ontario's native community." If you want to do it in that sense, I am happy. That leaves him the whole menu from which to choose in terms of the requests of the Union of Ontario Indians paper. He can choose, and we can just stimulate his interest in their proposals. Of course, he may also have

proposals from other organizations of the native community. I would be prepared to support something like that.

**Mr Christopherson:** I do not think we would have a problem. Anne, could you read back how you understood that?

**Ms Anderson:** "The Treasurer should make financial provision in the budget to allow continuation of consultation and negotiation with native peoples, with the belief that native peoples have legitimate grievances that must be addressed, such as land claims, education, economic development and social issues."

**Mr Christopherson:** We are fine with that.

That, as they say, is that. That is once through. Good thing we have another week and a half.

**Mr B. Ward:** Shall we give them parts IV to X?

**Mr Christopherson:** At this stage, before we begin now going back to the first paper with any revisions that we are prepared to support ourselves, does that constitute—we had talked earlier about your recommendations and you had said that your comments throughout would constitute those positions. Do I gather then that we have basically your menu, if you will, and that on those things that we do not agree on, you are going to more than likely outline a position in a dissenting report, as of course will the Tories?

1550

**Mr Elston:** I think that is partly it, David. Some of our comments, as I have indicated earlier, would have been around particular programs, had they been recommended, for instance, in the construction sector, or we may have particular comments to make about the 60% educational funding issue; types of things like that. So I think you can anticipate what we might say in some of those areas.

**Mr Christopherson:** Yes.

**Mr Elston:** But for a specific program, because we never really have revisited those construction items yet, we have not got your—at least I have not read your revised set of recommendations. You have most of our comments. We may as well end up having to speak more specifically to what is not included in the report, as much as there are comments to be made about what is in the report.

**Mr Christopherson:** That is fine. Quite frankly, with all of us new, I do not mind acknowledging once again that we are walking every step—every day is brand new and I am sure next year will be different. We still do not see fully what the end product is until it actually happens and that is just life.

**Mr Phillips:** Kimble has a draft of our report there.

**Interjection:** The Agenda for People?

**Mr Phillips:** No.

**Mr Christopherson:** Typical negative opposition document.

**Mr Elston:** Could I just raise an item?

**The Chair:** Could we focus again? Mr Elston has a question.

**Mr Elston:** Actually, I have revision 1, but I am it must be close to page 17 in revision 2 as well. There is a section right at the end of the agricultural section, the one that has been left unslashed, "Some sectors of the industry under the supply management system particularly dairy and egg sectors are experiencing difficulty as consumers become more health conscious." For me, coming from rural Ontario, that "as consumers become more health conscious," although there may be issues about the consumption of cholesterol and fatty foods and things like that, I feel that says something I do not want the committee to lend credence to, because I think there is a lot of misinformation about how healthy it is to consume red meats or egg products or milk. It depends how active a person is, how his body deals with certain consumption. I would like that to be changed in the sense—

Interjection.

**Mr Elston:** I do not know what the best way to think there is a sense that consumers—

**Mr Hansen:** I would say no problem; take it out.

**Mr Elston:** Take it out?

**Mr Hansen:** Because it has been a problem, I can tell you.

**Mr Elston:** You could even leave something in there, "consumers change food consumption habits," if you want.

**Mr Hansen:** So it would say what?

**Mr Elston:** It would read, "Some sectors of the industry...experiencing difficulties as consumers change consumption habits," because there has been a real increase in the consumption of red meats and an increase in fish and poultry consumption.

**The Chair:** Milk with lower butterfat.

**Mr Elston:** Yes, I am prepared to do that.

**Mr Christopherson:** We are fine with that.

**Mr Hansen:** I was thinking more of pesticides and that.

**Mr Elston:** No, that is another part of the issue.

**Mrs Sullivan:** That is also another issue, with the organic stuff.

**Mr Elston:** But when they talk about dairy and that it really means cholesterol and butterfat and things like that, saturated fats.

**The Chair:** In the last three weeks we have had the most mobile of lifestyles here, have we?

**Mr Christopherson:** We also have to make sure that we are comfortable—we have not had a chance to go through all of this yet, even just to quickly say we have done revision 2 page by page, so again it adds more time to our limited time.

**Mr B. Ward:** Does anybody have any concerns with that?

**Mr Christopherson:** We have not actually given it final approval with everybody.

**The Chair:** We may have a problem with the steering committee taking a final look at this because it says that all members of the steering committee must be present.



ven that we are not sure where the Conservatives will and on that—

**Mr Elston:** It is okay.

**Mr Christopherson:** Sorry; I want to be aware of is. Should that be happening today?

**The Chair:** No. What was being suggested is that even the limitations of time and other commitments for her people, we are essentially at a point where we may not make it and that we will not look at the final document in its final form, drafted, written and so on, as a committee. The suggestion was being made that the steering committee should look at it, and then the suggestion was made so that it would have to be unanimous that the steering committee looked at it, and we are not sure we can get—

**Mr Elston:** May I just offer this advice then. I know that you have only been authorized to sit these particular days, but I think by consent of the House leaders you can sit another day or so to sit. I am quite prepared to go both Shelley Martel and Ernie Eves to get another day just to look at the final product, if that would be within everybody's—

**Mr B. Ward:** To put a final package together.

**Mr Elston:** If we are not going to get the final draft here and if we can just put everything together and then sit a day on the final product, that would seem to me to help out.

Interjection.

**Mr Elston:** No.

**Mr Hansen:** It is just scheduling.

**Mr Christopherson:** Let me just say that we are not opposed to the concept obviously, but—

**Mr Elston:** You are not going to get a final product today, now.

**Mr Christopherson:** Okay, but let's kick it around a bit and see where we are. There is a scheduling problem, and I could see where in order to maintain numbers there could be some real problems finding agreement. We still have a third party to consider which does not appear to be helping too for the process at this stage. That could be very problematic, and I would not want to walk from here thinking that will be the resolve and have it stopped.

The other thing I would say is that what we have to do right now are areas where we can find agreement. We are still complete the work. We know what our position is. It was merely a question of—not merely, but it was in terms of process merely a matter of our trying to find areas of common agreement and that is through give and take and discussion. That would take the time, but the process itself for us to be finished with our position and you to be finished with yours and the Tories theirs can still be accommodated in this time frame. Having said that, I am not sure where that leaves us.

**Mr Phillips:** I think, realistically, that we have raised issues as we have gone through here, and it will not be as much what we agree with that is in the report; it is what is in the report. I think in many sections we have said: "This is backing off on your commitments. This is backing off on your commitments." So, realistically, I think there

are enough things not in here already that we are going to have to comment on, so we are going to have to write up some kind of a report on this thing.

Second, I think we are going to need some time to go over what things we can agree on because it is, as I repeat myself, going to be challenging for us not necessarily to agree with some things in here, but to enumerate each case where you are not.

I think we are probably best to somehow or other figure out a way to get the thing all finalized as much as we can and give ourselves a little bit of time to look at it. Mr Decker may be helpful to us as to how these things normally finalize when they are left at this stage.

**Mr Elston:** The committee has to make a request if it is needed.

**Mr Christopherson:** Let me raise a point to see what this does to the discussion. We have had an opportunity now, other than the revision 2 to the draft, but in terms of this one—other than this, okay, everything else in terms of our recommendations, we have all been through once completely right now and we have had a chance to consider everything you have had to say, save the responses we have heard the last hour and a half. We have not had a chance to caucus on that.

**Mr Elston:** Okay.

**Mr Christopherson:** But for the rest of it, while we are still flexible, let's be realistic. We have heard what you had to say. We have made some changes where we are comfortable with that, and I would suspect that we are not too far away from what our final position is, recognizing that in many areas, maybe most, you still are not going to be comfortable and you will still want to dissent. That is fine. We respect that. With that in mind, I do not know how crucial that makes it. I am just worried that if we walk away from here and say, "Okay, there will be another meeting and that will solve things," and then we do not get another meeting, where are we? We have walked away not completing the work we could do.

1600

**Mr Elston:** So are you suggesting then, David, that we just consider basically the reworking of the part I recommended as your final position on those items we discussed, and that the final report really just catalogue those plus whatever you decide with respect to just the last hour's discussion.

**The Chair:** Here is what we could do. I do not know how much time people have. What is the constraint with time? How many people have to leave now?

**Mr Elston:** I have a briefing but I am prepared to—

**The Chair:** If we stayed half an hour, could we go through the recommendations that are in revision 2 so we nail down the recommendations, and could we then send the document—

**Mr Elston:** Off to be printed.

**The Chair:** —off with Anne to be written, circulated and with comments to be brought back and then—no.

**Mr Elston:** No, you cannot, because Anne quite frankly cannot go away and redraft it and have it done any

earlier, I presume, than 6:30 or 7 or whatever for us it takes tonight, unless we are all going to stay here and sit tonight because we are not authorized to sit longer than today.

**The Chair:** That is right.

**Interjection:** We cannot sit tomorrow?

**Mr Elston:** We could sit tomorrow?

**Mr Hansen:** No, we cannot. We cannot sit tomorrow.

**The Chair:** Everybody is in his constituency office. We have three Fridays that were allocated in the budget allocations that we did not use, plus half a Monday morning which we did not use that was in the budget allocation for us, and so if the House leaders were to meet and agree that one day late next week the whole committee could come back and have the final positions solidified—

**Mr B. Ward:** Let me make a suggestion. I can stay till five, then I really have to go. Is it possible that we could break for 15 minutes until a quarter after four? Our caucus can meet and finalize our recommendations as much as possible, present them back and see where we are and hopefully wrap it up if we can.

**Mr Elston:** This is what I heard David saying, that this has been a refinement of their suggestions and that while there may be—in fact I hope there are a couple of word changes here just in terms of expressing; for instance, it talks about, “The government of Ontario should re-examine its funding on settlement and language training services with an attempt at enhancing service,” which is not quite, I think, what you want to do. With minor word crafting you can clean this up and basically this is the final position of government caucus members, and it really represents to them the final report position. We have done the revision 2 and really what is being suggested is that today we finish off by saying that the part I revision 9 am 7 February edition is the final position of the caucus in those sections.

**Mr Christopherson:** The part I is just that; it is Part I. There are two other documents, okay. The second one is completed. Again, it was done quickly. We have been meeting around the clock trying to get this stuff back to you and meet the commitments we made in terms of process. I would ask the Chair to consult with the clerk and the researcher how we accommodate some of those minor word changes that need to be done and how we get that authorization.

Aside from that, the two things we would have to do today to give full effect to the process is to finalize revision 2, and also, in fairness, I really would like a chance to caucus with my colleagues on the suggestions you have made over the last hour and a half. There were some very good points there. That way we could come back and enter what our position is there. As my colleague, Mr Ward, has said, we can do both of those things now as a caucus, come back, raise the concerns and then the only loose end, if you will, is as you have pointed out, Murray, is how do we accommodate that? What mechanism can be in place so that we do not get something we are locked into just

because we did not have time to back and give effect to change that is needed.

**Mr Elston:** I am correct, am I not, when you said that your part I revisions of 7 February 9 am are basically your final position in terms of—

**Mr Christopherson:** What we lose by not talking the fact that—you have been very, very good at coming with language that has helped us close some gaps. I mean that sincerely. We lose that opportunity where if you had made some move, then a little more language change would have us come closer, but we lose that.

**Mr Elston:** Okay.

**Mr Christopherson:** Okay. So we are still flexible to that degree, but having lost that we do not lose the whole process. Yes, the essence of what you are saying is true. Going back to the fact that there is not going to be unanimity, you may just want to address these things in your dissent.

**Mr Elston:** Sure.

**The Chair:** Let us break till about 20 after and reconvene and do what we can till 5 o'clock and send it out. Okay. There will be a temporary recess for 15 minutes.

The committee recessed at 1605.

1634

**The Chair:** Okay. We have about half an hour. Perhaps we could facilitate this by moving through very quickly. Are you prepared to take the lead?

**Mr Christopherson:** Yes, I am, Mr Chair. Back to page 3 of part II.

**The Chair:** Wait a minute. Could I offer a suggestion here? We have three phases. We have I, II and III, correct? If I said that we had dealt with part I—

**Mr Christopherson:** Let me come back to that. That makes it nice and neat and consistent; then, with your indulgence—

**The Chair:** I will trust you on this, Mr Christopherson.

**Mr Christopherson:** It will be well placed, I assure you.

Page 3: We had already agreed, at the committee level, on the issue of the wording on “labelled” and also “accessibility controls” question in the middle of page 3. My records show that we had actually crafted language that we had all accepted. There was a further concern raised on the item of the fourth point down, “The province should persuade the federal government to eliminate the 3% administration fee on Canada student loans.” We stand behind that. We are quite comfortable with that.

**Mrs Sullivan:** Just a second. Are you saying you are staying with all your wording on that section?

**Mr Christopherson:** The first one we had already agreed.

**Mrs Sullivan:** That was Murray Elston's suggestion.

**Mr Christopherson:** Right. That had been done. Further, there were suggestions and discussion. I believe Mr Sutherland was speaking on our behalf, and we had agreed to the language there. I think actually what we did was to eliminate the last word, but there was agreement there.

**Mrs Sullivan:** Are we changing OSAP at all?



**Mr Christopherson:** No. In fact, everything else is the same.

**Mrs Sullivan:** You are not changing the research?

**Mr Christopherson:** No. The balance is the same. Next page.

**Mr Phillips:** I think I asked whether you people were going to consider the recommendations of both the colleges and universities on funding.

**Mr Christopherson:** The caucus felt it was implied, clearly, that anything that did not specifically say "universities" only, that the request on funding and other initiatives applied to both. In that light we are comfortable with it as is here.

**Mr Phillips:** Which of these recommendations talks about the funding, where the universities requested that they have their university rejuvenation plan. Which of these recommendations refers to that? We are all on the next page, are we not? Page 3, "Committee Observations and Recommendations—Page 14."

**Mr Sutherland:** To be quite honest, there are no specific recommendations there on actual amounts of funding, we certainly believe that the preamble of observations and the other comments that have been made throughout the report that would come back and deal with college-university issues should be taken into consideration by the Treasurer in dealing with specific funding.

**Mr Phillips:** What did you just say there? That you are recommending that the Treasurer should take into consideration the specific funding proposals?

**Mr Sutherland:** No. We are saying there are no recommendations on specific amounts of funding as put forward in the proposals, but if you look at the observations, they stress the need to have this issue addressed and are saying that the Treasurer will address it satisfactorily from the recommendations.

**Mr Phillips:** From your observations or recommendations?

**Mr Sutherland:** From both.

**Mr Elston:** Can I just say something I said before? This is our work and we understand all the short forms and all the key words and signals and all that. This is not everybody's work, and it will not be read as everybody's work. If you want them to consider the funding requests of the universities, say it, just clear language, "Please consider this" or "Please consider that." I am not playing games. I am just saying that people will read this and say: "What in the world are these people doing? They could have done this without talking to anybody." Why do you just say, "Consider the request of?"—

**Mr Sutherland:** If you look at the second sentence, though, "The economic and human costs of an inadequate system of post-secondary education are becoming apparent in our society," that is a pretty blunt statement.

**Mr Elston:** It does not say anything.

**Mr Sutherland:** It does. It says there is a problem.

**Mrs Sullivan:** You do not say, "Put the money into the budget," and how much money you want.

1640

**Mr Elston:** We take that second step. Just say you want him to consider it. I think he can say that if we do not have a good system of post-secondary education its human costs are evident, or something. Why do we not just be blunt and say, "Consider the request for funding," or not say it. But let's not be cute and subtle with the words, because it does not do the job.

**Mr Christopherson:** We are at the point where there is a significant difference of opinion as to what is accomplished and what is not accomplished, and I think we just need to respect each other's rights. I think we know what we will see. You have every right to raise your concerns, but I think there is a point where we need to recognize that we are not going to go any further. Everybody has had a chance to raise their concerns. I am getting the signals clearly from my caucus that nothing has changed and that we are still very comfortable with the language we have here. You have, of course, your vehicle for saying something different.

The next page: The change we would like to see is in the first point. Between the words "provide" and "financial" we have put in "enhanced."

**Mr B. Ward:** "The government should provide enhanced financial assistance for retraining."

**Mr Christopherson:** We heard everything you had to say and that is the change the caucus is comfortable with.

The fourth-to-last point on the same page: The points were well taken and we would like to just remove it.

The next one is the second-to-last point. We would like to propose: "The government should undertake a comprehensive review of the regulations of the financial services sector." In saying that, I realize that that still does not meet all the points Mr Elston raised, but we thought you did make some good points and this is the change we would like to make in light of that, again, with all due respect to your right to disagree if that is not clearly what you would like to see.

**Mr Phillips:** Just let me state again that I think one of the issues over the next 12 months is going to be the job losses, particularly in the manufacturing sector. The government has two of them right there, de Havilland and Algoma, and then right in behind a whole bunch of others. I think this will be a major deficiency in the report. That is the point I raised earlier and you said your group would consider it. I guess you have considered it. "We reserve the right," and all that sort of stuff, but—

**Mr Christopherson:** These are our recommendations. Of course, what ultimately matters is the budget and that is what the government will stand behind, but this is what we are comfortable recommending and feel strongly about. If you disagree, which I am sure you do—

**The Chair:** That is not to say that a lot of these other issues are not going to be dealt with. Algoma is sitting on the Premier's table as his priority issue. By the time this hits the Treasurer's desk, that issue—

**Mr Phillips:** I understand, Mr Chairman. It is just, as I said, these recommendations, by most accounts, will take

some considerable period of time to have an impact in the marketplace, and kind of a full-court press on jobs may have been appreciated.

**Mr Christopherson:** Again, it is important to say that if it is not here it does not mean we do not think it is important. It is a question of whether we think it is appropriate here in the report and whether it has been addressed in another way. That is where it is.

To the revision, the draft report, we do not have many problems. The researchers have consistently done an excellent job. A minor point—it is actually my fault; I should have raised it in an earlier draft but I neglected to. On page—

**The Chair:** Excuse me. Just one point: The researcher is suggesting that we move a paragraph on housing. Maybe you had better deal with this, because it is your suggestion.

**Ms Anderson:** There seems to be some duplication in the text about housing in the construction sector and that section on the housing. I was going to suggest that the paragraph which is on page 11 could start off saying, "There are a variety of steps that could be taken to improve the supply of affordable housing, such as," and then there is the list of the various things we have just heard. It could be moved to the housing section rather than being in the construction section. That leaves the construction one talking more about the construction end of things.

**Mr Christopherson:** I do not think that is a problem.

**Ms Anderson:** It would be the paragraph at the top of page 11, with a little introductory bit saying something like, "There a variety of steps that could be taken to improve the supply of affordable housing," and then continue with that paragraph, "such as," and put that in the housing section.

**Ms M. Ward:** Starting from where?

**Ms Anderson:** If you go to the bottom of page 10—

**Ms M. Ward:** "Given the positive economic—

**Ms Anderson:** Cross out "This partnership," and then take the rest of that paragraph with a revised, restructured phrase and put it in the housing section, because it refers very specifically to things that have to do with affordable housing.

**Ms M. Ward:** The early part of the paragraph and the paragraph before are also talking about housing, and part of the paragraph before that is talking about non-profit and co-op housing. So what is the rationale for—

**Ms Anderson:** The third paragraph talks about non-profit and co-op housing and also talks about developers collaborating and job creation going through infrastructure funding. It seems to be more general. The third one could almost be taken out. Leave the fifth one in there, up to the point where it starts, "This partnership," and then just move the remaining part of that paragraph, which is more detailed, into the housing section where you talk about the need for affordable housing as opposed to the need for construction in general.

**Ms M. Ward:** Okay. I had a problem from the very beginning with this being split, construction and housing.

**The Chair:** So are you happy now?

**Ms M. Ward:** Yes, okay.

**Mr Christopherson:** Page 16: It is a minor matter but one we felt worth raising. The two paragraphs regarding the Ontario Federation of Labour: to ensure that have some balance—I am sure the committee would want to leave the impression that labour's opinion did matter as much as anybody else's and therefore anything referring to a labour presentation can be left to the rest of the chapter—we had suggested earlier that at least the paragraphs on the OFL be inserted between the first and second paragraph that appear in the section "Business and Labour" on page 14.

**Mr Elston:** This is some politicking, is it?

**Mrs Sullivan:** A little sensitive about the relationship with the last paragraph in the part, too, I guess, eh?

**Mr Elston:** We used to work away with Gord Wilson and try and include him in a whole bunch of our programs including the tech fund. It did not help us a hell of a lot. I am not sure what it is going to do for you. If he is not in the first or the second or third paragraph, it will not change his partisan point of view, I am sure, but if it makes you feel better.

**Mr Christopherson:** I think it is important that I have said that we do feel there is a need for a shift in attitude and in thinking—

**Mr Elston:** Listen, so did we.

**Mr Christopherson:** Well, I know, and the first 16 years that you followed us, you did just fine.

1650

**Mr Elston:** He was included as a full participant in that whole tech fund thing. It is a partisan sort of a shot. You do not see it in that fashion, but those of us who worked very hard to ensure that there was a heightened credibility given to the position of labour, and that included our Premier, because he went and actively sought out people from labour organizations to come join and speak freely about their points of view. I happened to chair a round table on the economy and the environment, and included there was Bob White who could not attend but Carol Phillips was there and attended a lot. You are thinking that there was not some sense among the rest of us here in this room that there should be some heightened role for labour. You do not see this as a shot, but that is what it is.

**Mr Christopherson:** I would disagree with that. I think that—

**Mr Elston:** It is just a little twist.

**Mr Christopherson:** I think it was indicative of what you attempted to trivialize the fact that we at least want that chapter to be balanced.

**Mr Elston:** I did not.

**Mr Christopherson:** You did. You said: "You're going to play little games. You're going to try and satisfy"—

**The Chair:** All right.

**Mr Christopherson:** Just a minute, Mr Chair.



**Mr Elston:** You see, that is another little partisan st.

**Mr Christopherson:** No, it was not that. I originally had that all I would like to do is move it over—

**Mr Elston:** It is your contention that you are the only one that ever took note of any labour role in any of this stuff, and it is not true.

**Mr Christopherson:** We will check Hansard and we will talk again, Murray.

**The Chair:** This is not a productive conversation. I think this is going to be an ongoing debate over the next few years. We have about 10 or 15 minutes left. I would like to finish the report, and then we still have a couple of resolutions that we have to do.

**Mr Elston:** You do not have to be a New Democrat to be sensitive to labour. That is all I wanted to say.

**Mr Phillips:** Just to be helpful, why do we not just—because I do think maybe you would feel better—move all the end of the paragraphs up?

**Mr Christopherson:** All we want is a balance, and the only reason we raised anything—there was a retort to that should have just been, “Fine, that’s a good idea,” and so on and so not. That is what ticked the whole thing going.

**The Chair:** We are a little touchy here.

**Mr Christopherson:** We did not ask for it to be changed to “Labour and Business.” We were comfortable with “Business and Labour.”

**The Chair:** Mr Christopherson, can we move along, please?

**Mr Christopherson:** That is it. We are done. I am sorry. Forgive me. Just a clarification from research. I remember it was just a process of noting and keeping track. Where it said “NDP observations” and in some places it said “Liberal,” that was for working purposes?

**Ms Anderson:** That is right. What I did last night was in the recommendations that seem to have come forward by both parties, because there were places where they had not been decided. At that point it did not seem to be committee recommendations. That will be taken out in the next reworking of it, as it has been decided—

**Mr Christopherson:** I would just make a note of it, that if all of us are the same crew who do this again a year from now that is just a point we might want to revisit, and how that is done.

**Mr Elston:** Some of you might be ministers by then.

**Mr Christopherson:** And miss being here with you this, Murray? Never.

**Mrs Sullivan:** I have to take this away and caucus it. Some of the areas where there are double recommendations listed, I do not think they came back addressed to the committee in discussion. I am looking at, by example, page 23. Let’s see what that one is. I have that one marked. I am looking for “Interval Housing.”

**Ms Anderson:** Opposite page 22. Are you in revision 2?

**Mrs Sullivan:** Yes. Our recommendation was very specific. You indicated that you would take that away, and

I assume that what you are saying today is that none of the recommendations that—

**Mr Christopherson:** You received part I, correct? We circulated that and that was our response to your concerns raised. We have now verbally responded in our part III, and I have here to circulate our part II. I cannot recall from memory whether there are changes there or not, but this is to be circulated with the clerk.

**Mrs Sullivan:** I know what you have here, but other than that I wondered if you had made any other changes.

**Mr Christopherson:** Whatever is circulated in that last document is our response.

**Mrs Sullivan:** Yes, by adding a year. It says to study, not to implement, basically.

**Mr Christopherson:** I do believe, although I will check with my caucus colleagues, that that wraps up where we are. At the appropriate time I will be prepared to move a motion that the final recommendations as circulated on documents noted as part I, part II, and the verbal responses to part III as given this afternoon, constitute the “Observations and Recommendations” part of the report. Perhaps the opposition would like to move the body of the report or I will include it in my motion, whatever they prefer. It is up to you.

**Mr Chair,** one moment please. A correction, because it is the motion. The verbal changes were to part II, not part III, for clarity and consistency’s sake.

To my colleagues across, through you, Mr Chair, would you prefer that I incorporate the body of the report as we have now agreed, or are you comfortable moving that separate from, of course, the observations and recommendations? I have moved the recommendations and observations. I am asking about the body of the report, the part that we have collectively agreed on.

**Mr Phillips:** Well, speaking as one, the challenge we face is the one I have articulated all along, that it is very difficult to separate the disagreements and the agreements and that it gets lost a bit in the shuffle. I think our challenge is the one I have tried to be as forthcoming as I can on, that I for one have difficulty in supporting the report because of a variety of reasons. One is that many of the recommendations, I think, are a backoff on the commitments that were made, and we do not incorporate in this, I think, some of the recession-fighting moves that are going to be needed. While I may agree with an awful lot of what is in here in verbiage and things like that, I think it is, like any report, very difficult to say: “There’s the 80% I agree with and there’s”—

**Mr Christopherson:** Just to make sure we are clear. Quite frankly, I did it in the reverse order. I am referring now just to the policy document, just to the part that the researchers drafted. It is a simple matter.

**Mr Elston:** Why do you not just move that you add your observations included in parts I and III written form and part II as amended by oral presentations to become part of the revision 2—with corrections, if you want to do that. I will have to vote against that, but that then develops your unit so you can go ahead and have—

**Mr Christopherson:** That is fine. There did not seem to be any disagreement on the body of the revision in terms of what people had said and what was brought forward. At least, I did not hear it. I was looking to see if you wanted to reflect that in a motion, and we would then move our recommendations and observations and you would attach your dissension.

1700

**Mrs Sullivan:** Move your recommendations be appended or be integrated as part of the report.

**Mr Christopherson:** But as to the body of the report itself, do you support the part that has been done by the researchers and that we have worked on collectively, to reflect what has happened here, what people came in and said?

**Mrs Sullivan:** It does not matter. Your recommendations will not stand alone anyhow, so get them into the thing and then we will vote.

**Mr Christopherson:** That is fine. I move the report, as revision 2, with a couple of changes made verbally this afternoon and our recommendations and observations, as amended.

**The Chair:** Is there any discussion? Seeing none, all in favour? Those opposed? Should we record this?

**Mr Elston:** No, you only do that if it is asked for and I do not see any reason.

**Mr Phillips:** I will remember.

Motion agreed to.

**The Chair:** We need direction with respect to the translation of this document into French and I am going to allow the clerk to explain. I do not think it is a big issue. It is a question of allowing the clerk to explain the different options available. First, we have to decide whether we want it translated or not, and I am not sure that is really a question. The second is how fast and soon we want it done, because there are some cost ramifications to that, so I will let Mr Decker explain that.

**Clerk of the Committee:** Basically what I am looking for now that we know what the report is going to look like is some direction, as the Chairman said, on whether or not to have it translated into French, and if we are going to translate it into French, whether to have it as a bilingual document, back to back, or whether to have a separate English and French version of the report; also, how quickly the committee is interested in having either or both of those versions available for public consumption.

**The Chair:** Maybe you could discuss the cost ramifications of the options.

**Clerk of the Committee:** A rough guideline as to what it would cost to translate the report is about \$100 a page. With the appendices and the dissenting opinions, we are looking at probably somewhere around 50 to 60 pages, so \$5,000 to \$6,000 would be the cost of having it translated into French.

**Mr Christopherson:** Is there a difference in cost between a bilingual report versus two different reports?

**Clerk of the Committee:** The cost difference would be that if you are going to print the same number of reports

in English as in French, it is less expensive to do it if you do it in one document. If you are going to print fewer in French than in English, it would be cheaper to print many as you want in English and then a fewer number in French to meet the demand as it arises.

**Mr B. Ward:** What have they done in the past?

**Clerk of the Committee:** Last year the report was translated into French and presented as a bilingual document. Previously I do not believe it was translated into French.

**The Chair:** You explained to me the other day that if we rush the translation, it is something like 63 cents a word and if we allow the translation to take place over a period of time, it is 43 cents or 46 cents a word.

**Mr Sutherland:** What is the normal procedure? Is the report presented on the first day the House is back?

**Clerk of the Committee:** This committee has, as do the other committees have, by virtue of the motion that was passed just before the House rose, the authority to release its report at any time by way of the Chair filing a copy with the Clerk of the House. That makes it a public document and the Chair is then obliged to bring the report forward to the House when the House begins sitting, but it can be released during the interval between sessions if the Chair releasing a copy through the Clerk of the House.

**Mr Sutherland:** What would be the normal time and procedure for translation?

**Clerk of the Committee:** As the Chair said, depending on how quickly the committee requires it, anywhere from one to five weeks would be the time line. The speed with which you want it translated will affect the cost.

**The Chair:** I need some direction. (1) Do we translate it? (2) Do we include the translation in both copies together? (3) How fast do we have the translation done based on cost?

**Mrs Sullivan:** I think there is another issue, and that is, as soon as the document is tabled it is therefore considered to be a public document. Therefore it becomes available to the Treasurer who is developing the budget. The speed with which it gets into his hands may mean that the information is incorporated into his budget planning. I spoke yesterday, I think, for the first time about the possibility of an April budget. In the past he has spoken of May and we are at February now. We are of talking several weeks of translation, plus printing.

**The Chair:** In the past the committee has agreed to pass a resolution saying that as soon as a copy is available, it is made available to the Treasurer and that for public documents, the public release can come at a different time, but as soon as this is ready to go it goes straight to the Treasurer. Is that the consensus in this case? Or now then, having said that, we still have the objection to translation now and so on. Do we want the document translated into French?

**Interjection:** Yes.

**The Chair:** Okay, that is passed. It will be translated into French. Do we want the French version to appear in the English version in all copies or do we want to have



English version and a French version published with fewer members?

**Mr Christopherson:** What are the other committees doing? Is there any precedent that has been set?

**Mr Elston:** I do not think you need to worry about it. The fact is it ought to be a bilingual document, in my view, and it was last year, and for us to change would be, I think, a very bad mistake.

**The Chair:** Do I have a consensus that it will be a bilingual document? Okay, it is a bilingual document. The other question is, how many copies do we print? We need 1,000 copies for internal use alone. Last year they printed 1,000 copies.

**Mr B. Ward:** Was that enough?

**The Chair:** There were about 130 left.

**Mr B. Ward:** yes, the same number.

**The Chair:** So 1,200 copies; all right.

**Mr Phillips:** How many did we actually use last year?

**The Chair:** You had 130 left.

**Mr Phillips:** We could use the 130 this year and just charge NDP to Liberal.

**The Chair:** Mr Phillips, please.

**Mr B. Ward:** Is it the staff's opinion that will be enough?

**The Chair:** Okay, now we need to have a date for the pending opinion to be filed.

**Mr Christopherson:** Apparently last year, as I understood it, there were a couple of days, and we have said this year, the figure, the date thrown out earlier was five days. From what I am hearing I think that will probably be enough, but I am open to hearing differently.

**The Chair:** Noon Tuesday?

**Mrs Sullivan:** Five working days.

**The Chair:** Noon Thursday?

**Mr Phillips:** Yes, I think that is fine. We just decided a few minutes ago to have the damned thing.

**The Chair:** Okay, noon Thursday.

**Mr Christopherson:** Somebody throw a Bible under the hand when he says that.

**The Chair:** Noon Thursday. Release date to the Treasurer? As soon as the document is ready?

**Mr Christopherson:** Yes, as soon as possible.

**The Chair:** General release: As soon as the document is prepared and ready to go in its bilingual version it should be released. It should be given to the clerk and then released to the public?

**Mr Christopherson:** How is it released, Mr Chair? Is it tabled in the House?

**The Chair:** I call all the press and all the media and everybody comes in here and we make a big celebration.

**Mr Christopherson:** The Chairman does a news conference.

**Mr Phillips:** It should be after the stock markets close.

**The Chair:** We are aiming for the first day the House comes back.

**Mr B. Ward:** Is that normal?

**The Chair:** Mr Decker just indicated that if all goes well he can have it ready in its bilingual version, and everything ready to go, for the public and everything, on 18 March.

**Mr Elston:** Beware the ides of March.

**The Chair:** Shall the report be adopted in the report of the committee, subject to the final authority of the Chair to verify that the final draft reflects the changes directed to be made?

**Mr B. Ward:** Those are all his.

**The Chair:** No, they are not; they are his.

**Mr B. Ward:** Is that normal?

**The Chair:** That is normal. That means I have to read it before it goes off, okay?

**Mr B. Ward:** Before you sign your name.

**The Chair:** Is there any other business?

**Mr Christopherson:** What about the question of the odd word here and there?

**Mrs Sullivan:** You just passed a motion.

**The Chair:** You just gave me authority to make sure that the grammar and the spelling are correct, but not to change the intent.

**Mr Elston:** If you lost the argument in your caucuses, you guys better be careful.

**Mr Sutherland:** Wait a minute. Did we not have a problem with the words the other day?

**Mr Christopherson:** That is right. What have we done?

**Mr B. Ward:** I thought we learned our lesson.

**The Chair:** Who said the Chair does not have any power?

**Mr B. Ward:** We are wrapping up, I think.

For myself, this is my first experience in a standing committee. I would like to thank everyone. I enjoyed it. It was a very good learning experience. I enjoyed the give and take and the co-operation that was shown from most people during our discussions and debate. I would just like to thank everyone on the committee.

**Mr Christopherson:** I would like to echo that, and also particular thanks to the staff, the researchers, the clerk and the Hansard people—very impressive support of the work here. I want to thank our colleagues for their assistance where they felt comfortable doing so in light of our newness and I look forward to the next time around. Thanks to you, Mr Chair, for doing the best you could with a rather unwieldy group from time to time, and with the time constraints we had.

**The Chair:** I would like to add my thanks to all of you. You made my job here a little bit easier and a wonderful learning experience.

There was one further question. Does the committee want to meet when the House sits and do we want to have something ready to go for the first Thursday, about 21 March? Do we want to have some hearings set up so that the committee can continue its work?

**Mrs Sullivan:** On pre-budget?

**The Chair:** No, the pre-budget is done; to move into another phase of the committee's work.

**Mr Phillips:** I would have thought that the subcommittee might want to meet and talk about it. It seems to me we already had agreed to the cross-border stuff.

**The Chair:** There is transborder shopping and—

**Mr Christopherson:** I think what I heard, and I stand to be corrected, was that the subcommittee had looked at a number of things, but those recommendations are yet to come to us. I do not think anything has been finalized. I do not recall voting on anything.

**The Chair:** The subcommittee had agreed that we, as a group, would recommend to this committee to bring cross-border shopping to you for the committee's—

**Mr B. Ward:** Is it the call of the Chair then?

**The Chair:** No, I think I need direction from you to say that, "Yes, we should go ahead with that."

**Mr Christopherson:** How does that work in terms of how much time you spend on it? How are those decisions made? I have no idea. I am asking.

**The Chair:** This committee is scheduled to sit from 10 o'clock in the morning on Thursday until noon and from 3:30 until 6 on Thursday. Therefore, we can schedule meetings to discuss these issues. We can ask people to come and give us depositions during that time and do some recommendations.

**Mr Christopherson:** But when do we decide how long we stay with cross-border shopping and what we are going to attempt to do, or do we do that at the first meeting?

**The Chair:** I get a sense that maybe the first meeting should be an organizational meeting.

**Mr Christopherson:** So there is no set.

**The Chair:** On the first Thursday do we want to have the organizational meeting at 10 in the morning or in the afternoon, Or both times?

**Mr Sutherland:** Let's go in the morning and if we need it we can go in the afternoon.

**The Chair:** Okay, so we will have the first meeting sitting in the House as an organizational meeting at 10 o'clock in the morning. Mr Phillips, you have one final comment.

**Mr Phillips:** Have we decided on this cross-border subject or we will make that decision when we meet?

**The Chair:** We will make that decision when we meet.

**Mr Phillips:** I am not sure of the other subjects that had been proposed.

I just comment while I still have the floor that I think we have found this a useful process as well, particularly in the last couple of days. I think the third party made quite a contribution as well.

**Mr Elston:** Probably more productive.

Interjections.

**Mr Phillips:** I disagree with very little they said in the last couple of days.

**The Chair:** We are now adjourned. Thank you very much for your efforts.

The committee adjourned at 1715.



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**Official Report  
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(Hansard)**

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**Standing committee on  
Finance and economic affairs**

**Pre-budget consultation  
process review**

**Assemblée législative  
de l'Ontario**

Première session, 35<sup>e</sup> législature

**Journal  
des débats  
(Hansard)**

Le jeudi 21 mars 1991

**Comité permanent des affaires  
économiques et financières**

**Révision du processus  
des consultations prébudgétaires**

Chair: Jim Wiseman  
Clerk: Todd Decker

Président : Jim Wiseman  
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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 21 March 1991

The committee met at 1024 in committee room 1.

### PRE-BUDGET CONSULTATION PROCESS REVIEW

**The Chair:** All right. I now see a quorum and I would like to begin this meeting. I think we should perhaps move to the general discussion that we were having about the pre-budget process, ideas about it, how we felt it worked and whether or not there were any recommendations of how this process could be changed, improved or should we leave it alone. And I throw that open to the members present.

**Mr B. Ward:** There is one way we perhaps should explore in improving the consultative approach. I know there are a number of major organizations that are very representative of a sector in our province, and although the presidents or the chairmen of these organizations may change, the organizations are still there. Perhaps we should develop or recommend a list of organizations that are, on a continual basis, invited to prepare briefs.

I know there was some discussion when we first formed as a committee as to what process did we want to use. We agreed we should be first of all inviting the Ontario Federation of Agriculture, the Ontario Federation of Labour, the Ontario Chamber of Commerce and that type of organization. I think we could establish a list so the clerk knows on a yearly basis and the organizations get used to being invited on a continual basis. I think that may be one avenue we could discuss. I do not know if I am off base here or not, but I think that is one area where we could improve the consultative approach.

**Mr Sutherland:** I would agree with Brad on that, and I think I would want to add a list. We made special note of the areas we did not hear from at this committee that we thought were still important areas; I think of transportation, environment and mining. I would suggest that maybe, looking at the list we saw from last year's report, a lot of those groups did not show up at that year either. I think that maybe there should be some focus in terms of identifying some of those organizations that are representative of those areas we have not heard from for a few years and maybe some selective recruiting of those organizations to appear before the committee, just to ensure that it gets a broader representation, and if the composition of some of the groups coming before this committee is changing from year to year, I think that is a good thing too. But particularly when you talk about issues of public transportation and environment, which have certainly grown in importance in the last couple of years, we should be hearing from them at this committee as well.

**Mr Christopherson:** The first thing I would like to say is that in my conversations with the Treasurer, he is still emphasizing the importance he places on this committee and on the pre-budget consultations and the fact that he

sincerely would like to see us move to reform the process so that it could have more meaning and allow all members of the Legislature an opportunity for real input into the development of the budget.

I sincerely do not sense that there is any rhetoric there or that it is a throw-away line to appease someone. I think he truly would like to change the system. Recognizing there are still some things that are going to remain the personal domain of the Treasurer and certainly of cabinet, there is obviously a role for all members to play; and I think as we move into the 1990s and the next century, it is time that we started to recognize that.

Having said that, I preface my suggestions by saying we have not caucused on them and we do not have a hard and firm decision; this is a give and take, for us anyway. I would just say that my thoughts now are based on my limited experience here and perhaps in a perfect world might work but the realities of this place may not allow them. My concern with the whole process was that in many ways, I saw us doing line ministry business. For instance, we would have people from the health profession, health care, come in who would be making the case to us that their particular health concerns or areas of expertise or financial need should be placed in a position of high priority. Then under transportation, we had different submissions made by individuals who again felt that their particular issue needed to be high. I just had a bit of a problem with that because that has to be sort of all or nothing to be effective. We either sit down and listen to virtually every single interest group that is out there, so that we can adequately weigh them all equally, which I would suggest is probably impossible, or we try to limit ourselves to dealing with the macroeconomics of the province. That is what I would throw out for discussion, that it would be nice if we had many of the same groups—the agricultural group, the labour groups, business, banks, investments, financial institutions and so on—all the players come in but give us their perspective on the macro and where they think we ought to be targeting in terms of the monetary and fiscal policies of this government.

1030

In conjunction with that—again I do not know how practical this is—I thought it was helpful when the ministers came in. The ministers who did come in here at least were able to share with us the difficult choices that they saw and what were their global dollar needs.

Again, I find it hard to believe that any Treasurer is sitting down and looking at budget line item in a particular ministry in real detail. I just do not think that is practical or possible. That is what the minister is there for. What the Treasurer is looking at is, "Out of the global budget, how much can we or should we allocate for health or transportation?" I have understood from my colleague—the minister



of that particular area—these are the priorities that they have and these are the needs they have and I would agree that this is the way we ought to prioritize our dollars.

There are 26 or 27 line ministries. We listen to an awful lot of submissions anyway; if we were to have all of those ministers come in, at the end of that we would have a pretty fair sense of the major fiscal pressures that each of the ministers was facing. My colleague across the way has been in cabinet and would know better than I, but that is probably not unlike what happens in cabinet, at P and P and during the budget process.

In order for that to be effective in practical politics—and this is where it may not work—you would have to have in place a process where virtually every line ministry went through a public consultation opportunity so that those people who do want to come in and make a specific proposal for their area of concern or expertise still have an opportunity to do so. What is not going to happen in this place is that we change this process by simply cutting people out from coming to the end of the table. Even if it is not having the impact that many would like to think it does, I still do not see how, in real political terms, we are ever going to be able to say to someone: "You are not coming in any more. You will no longer be able to come in and make your annual pitch, even though you realize you are not changing the world every time you come in and do that."

To summarize, Mr Chair, and I appreciate your indulgence, from where I sit, I think it would be best for us if we were dealing with the macro monetary and fiscal issues and we were receiving briefings from the ministers so that we understood the fiscal constraints they were under. From that perspective, we could then offer up to the Treasurer those key areas in the macro sense that we think he ought to be looking at, knowing that the only way that will work is if each of the ministries—either through committees or some other process—is allowing those same groups that are coming in to see us an opportunity to come in. Quite frankly, that ought to be happening. The Ministry of Health should be allowing those interest groups to come in, through some process, and make a case for their share of that slice of the pie.

**Mr Phillips:** I probably have a bit of a fundamental difference of opinion on that. I think the process that we went through actually is not all bad; it is not perfect, but democracy is not very perfect. I really think it would be a mistake for the public to think that their only input is through the ministries and for us to change our focus to be dealing with the ministries. I think it serves quite a worthwhile function that people feel they have some access to this place. That surely is the message all of us get, that this place, even symbolically, is surrounded by a moat. Interestingly enough, there is only one cross-bridge if you look at it over there; there is one traffic light where you can get across this thing, and as the traffic builds up, symbolically this place runs the risk of being even more remote from people.

One thing that is effective about city councils and school boards is that they are very close to the people, and anybody who has got a complaint, whether it be about the dandelions on their neighbour's lawn or their taxes, has

access. Here, I do not want to do anything that moves in other direction. Every ministry has a lineup of advocacy groups that the minister sees—just look at their schedule—but many groups feel they do not really have access; they may get their half hour, but when they leave the bureaucrats tell the minister why it cannot be done. Therefore, I think we have to keep this process open.

As for the changes I would consider making—I think it will be a lot better at it next year anyway; I mean, we know the process, we will know the budget and all that sort of stuff—they would be perhaps to have a more detailed briefing from the Treasurer with an outlook for the next five years, maybe even sending that to the groups that are going to present here in advance so they at least have some understanding of the financial realities that the Treasurer is facing him.

I would not advocate fundamental change at this stage. I think the three weeks probably were about adequate. I think people at least who want to have their say knew that they could have their say. You will find it will ebb and flow. Next year there will be a different group of people here. Everybody knows this takes place anyway, and if they are strongly they will show up. But the fundamental point is that we have got to be careful not to do anything that makes this place more remote from people.

**Mrs Sullivan:** I apologize for having come in late, but I think I caught the gist of some of Mr Christopher's remarks. I think one of the things he was conveying on behalf of the Treasurer in his views to us was that the Treasurer would like to see a committee that operates in a way that is more comparable to that of the British House of Commons where each member serves as an individual rather than as a representative of a party. We have seen some move to that kind of committee operation in Ottawa with the final committee there chaired by Don Blenkarn. That has been the tradition here. In fact, this committee has existed for an awfully long time.

The question that I suppose we will all have to ask is where we see the positioning of this committee. Do we see ourselves as being an advocate of a position that may or may not be accepted by government, having reached that conclusion as a committee? I think of Don Blenkarn and his committee and some of the stands they took in Ottawa relating to the GST, to insurance and to the banking industry. They did have a strong and important communications effort and probably had an influence on some of the decisions that were made by that government.

I am not certain at this point if our own caucuses have looked at those questions to see the kind of committee structure and the independence of the committee that is comparable to that in Ottawa. Certainly that was the hope of the previous Treasurer when he asked the House and House leaders to put forward and introduce this committee. His hope was that, in fact, the committee would take on issues that were of importance in the economy, but it was very clear that this was not a ministerial vetting committee. The decisions would have been made by the committee after having dealt with people and organizations who represented a point of view, who had problems and wanted to bring them forward to some place that was open and so



be willing to listen. The committee also, certainly at the federal level, and it was the intention that this committee would be able to engage outside consultants, were that necessary.

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At some point we may want to have that kind of discussion. I am not sure that of the issues we are likely to deal with over the next period of time, the issue is a pervasive one: Are we going to be an independent committee, or how are we going to operate?

I think it would be dead wrong to move away from involving people from the community in appearances before the committee. One of the things that all the standing committees of the House have been able to do over a period of time is to bring people in from outside this place and from outside areas that each of us represent. We all need to be more familiar with those issues and concerns in our own constituencies. The broader-based view that can be brought to the committee through an umbrella group or through individuals who are facing issues in their daily life is a matter of extreme importance, and I would not want to go into the ministry consultative process in terms of any budget determination program.

I was kind of taken aback by some of Mr Christopherson's remarks. I think it might be useful, just as an exercise, perhaps after the budget is finished or in an informal session, to have perhaps the Secretary of the Management Board and the Deputy Treasurer come and explain, to the new members particularly, what is in the budget process internally. The pressures are identified by the cabinet and are put forward through the estimates process and through other processes. I think it might have been useful even to have that kind of understanding before we went through this process, but I thought the sessions this year worked pretty well.

I was impressed with the breadth and the differing sophistication and the different financings behind the groups and organizations and individuals who came before us. There was a good cross-section, it seems to me, of interests. There were a couple of areas that we probably could have added a little bit more to by extending invitations, and maybe that is an area where we should put some attention on. I thought the three weeks was a reasonable period of time, and we could have extended that into night sittings if we had had more demand. But it was a pretty good cross-section. I thought it worked quite well this year: lots of opportunity for discussion with the groups and to ask questions, too. I would just leave it like that. I think this is the wrong place for the cabinet ministers to be in, basically, making their public fight before individual members for a particular or different share of the budget.

**Mr B. Ward:** I agree with Mr Christopherson in the sense that, from a macro standpoint, and as Mr Sutherland mentioned, there were some sectors that were not represented at this committee. I think Mrs Sullivan and Mr Phillips agree that we should not be constraining groups; we should be encouraging all sectors that are represented by umbrella groups to present their views on a provincial standpoint.

I personally felt the time allocated was a little bit constraining, and we could look at expanding that to possibly four weeks. I just felt personally it was a little bit constraining in our attempts to get the report completed. That is where it seemed to be really constraining: to get the report completed on time.

**The Chair:** So you want more time for the actual discussion of the resolutions and the writing of the report?

**Mr B. Ward:** Yes. I think there was a little bit of constraint there as far as completion of the report went.

The other concern I have, and I do not think it has been discussed yet, is that since we held the meetings here, the groups that were present were primarily from the greater Toronto area. Perhaps we should be looking at some avenues to allow the groups that cannot be here; perhaps we should be going to them to allow a representation, particularly in the north. I know there are some umbrella organizations from the north that for whatever reason felt they could not be present, but we should be looking at perhaps having some meetings outside of Toronto in the future.

**Mr Sutherland:** Has this committee ever gone on tour of the province for the pre-budget consultation process?

**The Chair:** No. I am approaching this—from where I sit here—as a sort of post-pre-budget consultation review so we can look at how to make the process better and recommend any changes to the whips.

**Mr Stockwell:** I do not think we should get bent out of shape too much with the thoughts of our own self-importance. We are pretty insignificant in the whole scheme of things. I accept that, being from probably the most insignificant party at Queen's Park because we are in third place. Maybe it is easier for me to say it rather than others because we lost. In my opinion, the fact is that our input is negligible, and I think we should remember that. Touring would give the impression that we feel our input into the budget process is a lot more significant than it truly is. I do not necessarily think the system that was in place was all that bad, frankly. I think it was pretty good.

I am in agreement too with respect to access and people coming forward. It seems politics at Queen's Park, which is different from politics in City Hall, is way more geared to special interest groups. It seems your life is spent hearing from special interest groups. I suppose that is the way politics is everywhere at the provincial and federal levels; they get their 10 or 15 minutes, make their pitch and go on their way. I do not think they take this pitch very significantly either because—let's be frank—you are not talking to the minister. You are talking to a parliamentary assistant, maybe, who sits on the committee, and a group of members from the government side, who I am sure talk to the minister but not on a regular basis about the issues and policies of the day, and from the other parties in the House, who probably never talk to the minister on policy issues, etc.

We should dismiss this touring idea right away. It will be a colossal waste of money, in my opinion, and it will just raise people's hopes in other sections of the province, who will think, "Gee, a committee is coming up there; let's make a pitch and we'll get our way," or something along those lines. Why not let the Treasurer tour? It would be far



more appropriate if the Treasurer toured Ontario and got input from people around the province. I think it would be extremely helpful if he did that.

The only thing I would ask is that there be some method to see if there are more private citizens out there who want to make a pitch. It is difficult, I know, and I suppose we could be here for the rest of our lives hearing from them, but I would like to hear from a few more than we did. I agree special interest groups are good to hear from as well, but they always have an axe to grind. There is a reason for their being here and you pretty much know what they are going to say before they even make their pitch. It is like the parties: You pretty much knew what your report was going to say before it came out, and our report, and so on and so on.

With respect to ministers, I do not see that as a very worthwhile exercise for them to be appearing before us. We are committed to hearing from the public, and any way we can make it easier for the public to come before us and give their pitch I think is appropriate. As Mr Phillips said a few minutes ago, next year we will probably be better at it and will offer different viewpoints; potentially we will have a better committee next year, a little smoother running, and maybe reach out and get some different groups in here. It seems to me from what I have read on previous groups that it tends to be the same ones year after year. Maybe that is the way it is always going to be, but it would be nice if we could get some fresh ideas, maybe a few radical ideas. What the heck; you are in government only once, maybe twice.

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**Mr Christopherson:** That is what you guys thought; you thought it was just for ever.

I want to deal with Mr Stockwell's comments first. I apologize for having to had slip out for a moment; I cut the conversation short to take the call because I did want to hear what he had to say. When I came back, I started out agreeing with him 100% and slowly he started losing me as the rest of his argument unfolded.

**Mr Stockwell:** You will find that happens a lot.

**Mr Christopherson:** Yes, that is what your former colleagues tell me; it was their experience with you.

I knew that by even broaching the issues I did that I would be open to, let's just say being run at and leave it at that—interpretations that others would like to place on it. Mr Stockwell in his opening comments succinctly established that just because people are coming in and we are allowing them to have a say and raising their hopes that things are going to happen, there is a real concern about whether, because we are allowing that to happen, there is any real input and real effective change.

I would not find too much disagreement with what Mr Stockwell said, that basically you could have each of us write down, in a sealed envelope ahead of time, where we thought generally each of the reports was going to go, and you probably would not have been too far off the mark. Granted, on specifics—because we learned about the issues—some priorities were changed as a result of what came in, what people told us. But by and large I think that

if you looked at the previous reports you could pretty guess where the thrust of the three parties was going to be in this report. That is what concerns me.

Mr Phillips mentioned that people should feel like they have access. That is my concern, that there is an impression that people are having a real access to the decision making by virtue of coming in to the end of the table. I will try to be non-partisan in this approach, but I really think that if there is going to be change in public input, it is not that you are just saying to people, "Yes, come in and let us hear your say," because you can easily build a system where everybody has their say but that say does not have a lot of impact on the ultimate decision. That is what concerns me, that I would like to see a greater impact.

I am concerned, as a member of this Legislature, about the influence this report will have. It will have a greater impact on this Treasurer as it has had on the prior Treasurer—I would hope more, but you would expect more. I say that—but I do not know that this report, because of the system we have, is having the kind of effect that we want. I think we would really like to see people have access to the process, and that is why I emphasize that nobody should be denied his say, but maybe the say should be better placed. Or maybe we ought to change what happens to that say in terms of how we deal with it.

My concern is that we may be making people feel good or feel like they have access, to quote Mr Phillips, but that are not effectively empowering anybody, which is really one of the key aspects of government in the 1990s—to empower groups, to empower people. I am not impugning the motives of the arguments that Mr Phillips gave back across the way, nor those of Mrs Sullivan; I am just suggesting that maybe we need the kind of radical changes that Stockwell has talked about.

I am not married to the idea of ministers coming here or any particular aspect of what I suggested, but I am trying to generate the idea—at the risk of leaving my mind open to the kind of runs I had and that you could make those concerns—that we maybe need to be looking at making this whole thing more effective and not just tinkering with a process that we have been handed down from the previous Legislature. I will not point any fingers because I do not think that is appropriate, and that is not what I think was said.

I liked what Mrs Sullivan said about the idea of looking at what they are doing federally, where that seems to be having some impact. I am not as familiar with the British system for their committees as Mrs Sullivan seems to be, but I like that kind of thinking. I like the idea of saying, "Okay, let's set aside what we do here, just for the sake of argument, and have a clean slate in front of us and say, 'What kind of things could we do?'" rather than saying, "This is the best system and all we need to do is tinker with it to make it work." That is what worries me. I really would feel bad if at the end of four or five years we were still turning out reports and had a process that still did not have any greater impact on the Treasurer and on the cabinet than it now has. I would not feel good about that.

**Mr Sutherland:** I want to come back to the issue of whether this committee tours. Mr Stockwell made ab-



point that he would like to have more individual input, but he does not think touring is a very valuable process. As someone who had the opportunity to sit on the select committee on Ontario in Confederation—and Mr Stockwell sat on that committee for a couple of days as well—I know that from the day I sat in, that is when you get the individual representations. I think if you look overall at the select committees or at those committees that do go out and tour around the province, you find more input from individual citizens there than in the committees that just hold hearings here. I think that, if you really want input from the average citizens or individual citizens out there, touring is one of the better options of doing that.

We heard from a couple of school boards from this area, ones that had appeared before this committee before, and they certainly had valuable input, but not all their concerns are similar to those of other individual school boards and community health groups in those areas. It is obviously far more expensive; there is no doubt about it. I do not think we should cast aside the idea of touring, particularly since we now know that this committee has not toured at all for that pre-budget process.

**Mr Hansen:** A lot of my questions have been answered already, but one thing is that the ad we had put in the newspaper stated that we would travel if it was necessary, it just happened that most of the groups' headquarters are based here in Toronto; so that is why I figured we did not get any requests to travel outside of Toronto to hold hearings.

The other thing is that in one of our subcommittees where we discussed which groups we would be asking to come; so we decided on the groups we would be requesting to make a presentation to the committee. I had a strong feeling about a group known as Shop Ontario, which in my particular area has got quite a concern. Not knowing the process of Shop Ontario, and knowing the chamber of commerce was making a presentation, I approached Tony Commisso and said it would be a great opportunity for their group to approach the standing committee on finance and economic affairs.

Sometimes we have to do a little bit of teaching—it may be in our particular ridings or whatever the case may be—to inform people that this committee is here and to make presentations so we wind up getting them in here. This is something that is coming up in the future that we will be discussing on cross-border shopping; so it actually gives us an insight into our upcoming discussions in this particular area.

As Mr Christopherson asked some of the questions and made some of the statements, that is what I have to say on the matter.

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**Mr Phillips:** My blood is boiling a bit over Mr Christopherson's comments. When I ask people to come here, I listen to them and I care about what they say. It is not that I feel and then ignore them. I will tell you, there is intellectual arrogance beginning to creep in and you guys had better watch it. I am as sincere as I can be on this, because if you think the people of this province do not

want to come here and be heard, you are dead wrong. I will continue to fight and make certain that anyone who wants to let his views be known has that opportunity.

I guess I wanted to make absolutely sure that when I say people feel, they feel and in reality have it. I listened to every one of those presentations. They all sink in, they all have an impact on the background, and I do not think we can be selective. I still recall one of the members across there saying, "I don't know why that group or that individual had a chance to speak, because they are represented by another group." I am prepared to listen to individuals who may disagree with the organizations they may belong to. I do not think we can be selective in who we want to hear from in this province.

**Mr Christopherson:** We seem to be going down exactly the road that I expected. It does not surprise me that you might feel a little defensive, if indeed it was the last government that implemented this process. I am not suggesting that any of us did not listen. What I am suggesting is that the ultimate product may not have the kind of impact on the decision-making that people like to think it has or that we hope it has. I have said very clearly that I think this report will have the same impact and effect on the current Treasurer as it had on the previous Treasurer. I am not faulting either one of them. I am suggesting that there must be a better way of having what we hear reach the actual decision-making point, other than just this report.

I am now running the risk of running afoul of my own government but, as a member who has come from a grassroots level of government, as you have, to Mr Phillips, I have a concern that this is not having the kind of effect that it should have. I say that as a member from Hamilton Centre. I think there ought to be greater impact on the decision-making based on what people are telling us at the end of the table.

What I did not say in my previous remarks was that, based on the process we just went through, you could probably rename this committee the funding advocacy committee more than the finance and economic affairs committee because we spent as much time dealing with individual advocacy groups as we did on the macro question. I am not saying that is wrong from a Legislator's point of view. What I am questioning is where those discussions are taking place. Might it not be more effective, I am suggesting, for us to have a better process for people who want to talk about specific advocacies rather than having their concerns lumped in—because I cannot think of a better phrase—with those of the people who are coming forward and talking to us about the macro question, which is what we did. My concern is that we are dealing with apples and oranges.

In terms of personal commitment, I would love to be on all the committees that heard from everybody, as I am sure Mr Phillips would, because he cares and I have seen that and I believe it sincerely. I do not think either one of us wants to impugn the other's motives in this discussion, but what I am suggesting is that I think there could be a better process. Maybe a committee like this would do better by getting into a lot of the projections about the unemployment figures that are expected—I am not phrasing it



right—a lot of the projections we heard from people who spent a good 45 minutes with charts doing very in-depth, comprehensive reviews about where this province is going vis-à-vis other provinces, the Americans, the global market.

What are the key areas we ought to be focusing on? Through the whole thing there is a great emphasis on the manufacturing sector. I just see so much business coming through here, so many key things that are important, from the dandelion funding programs right through to Michael McCracken talking to us about his view of where we are going in an economic forecast for the next year, that I think we could probably better serve those people who are coming forward, and allow more people to come forward, if we changed the process. I was throwing it out, off the top of my head, not having given it a great deal of thought or research, saying, "Here's a suggestion for the sake of discussion about how we might do it."

I am prepared to listen to the ideas that Mrs Sullivan put forward. If Mr Stockwell has any of his radical ideas in his vest pocket, I am prepared to listen to those too. But what I do not want to do, and this is my position, is to see us just tinker with this, because I do not think it is good enough. I do not think we are giving the people what they think we are giving them through this process, and that is the bottom line of my concern.

**Mr Phillips:** I do not think you read either our minority report or the Conservative minority report, in that they both dealt with macro issues. It was the majority report that itemized 60 recommendations. The process has the full scope to allow us to make macro recommendations. You chose to go with—I do not know—52 recommendations, but an important part of the backdrop of all of that is, what are people thinking out there? I am rejecting strongly limiting people's access to this committee to give us the necessary background to form our opinions. I will fight for a long while to avoid the élitism of saying: "We know best, and we will deal with the numbers here."

**Mr Sutherland:** No one is trying to limit the public's access. The suggestion put forward by Mr Christopherson is, you still have public input; it is a question of where is the most effective place of putting it. Is it the committee having everyone come in, as they have here? The alternative would certainly require a change in the way ministries deal with it, because they would have to go through a far more formalized process than they have now. I do not think any of the ministries has a system in place to do the type of things that Mr Christopherson has suggested, that those groups go specifically there and then the individual ministries come here. That may be a better way; it may not be. There are also other options. No one here is trying to deny the public's access to making input and giving suggestions and recommendations. It is a question of whether this committee is the best process. There is a question whether some of Mr Christopherson's suggestions are the best process, or maybe there is another method out there that is even better than that. I think we all want to try to improve the process, and I do not think we should get caught up in the discussion of whether one way is trying to hinder the public's access. We know we all want public

input. I think that is a given for any elected official, or should be a given, anyway. I think we should try to refo the discussion away from limiting public access to whet the current method is more effective or Christopherson's suggestions would be more effective other alternatives would be more effective.

**The Chair:** There have been a number of comme made, one by Mr Ward about the time of the process: much time was available for hearing submissions and th being able to think about those submissions and make reco mendations. If I read him correctly, there is some quest about the amount of time available for actually digest the material and then making recommendations. Does the committee have a recommendation about the specific co ment that Mr Ward has made? Is there a recommendat or some kind of change we can make in the process t would address that specific question, or are we happy w exactly what we had?

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**Mr Sutherland:** My only suggestion would be tha you had your two weeks or three weeks of hearings, then the committee could have a week off, which would allow ti for the research staff to write the background for the rep and based on the comment, that would also give us time digest it, then come back and write the report that way.

**The Chair:** Okay, that is one recommendation: a w between hearings and writing.

**Mr Phillips:** I think it may be more worthwhile have this discussion in two or three months. We have j been through the one process, but I think time will unf a little bit, and I would rather make a decision on how want to do the pre-budget consultations a little bit la than right now. I just think the economy is going change, and all sorts of things; so we may have quite different view of how we want to run this thing. I am r sure today you are going to be able to nail down th versus four weeks, this or that. You may want to let a li bit of time go by, to see how things unfold, and then v need to do it six months before the budget or give o selves enough time. But as I say, I for one am not sure t today we are going to be able to put in place a process th would be useful here.

**The Chair:** I guess my concern as Chairman is to t to put something on paper in case there are changes in the makeup of the committee so we could then have so continuity if there are changes. I do not know that there a going to be, but I am thinking down the road; a year is awfully long time in this game.

**Mrs Sullivan:** As we discuss the kind of process th the committee wants to go through for the next pre-budg sitting, we have to recall that any recommendations th will be made would be going ultimately to the Board Internal Economy in terms of determining the agenda a the funding for the committee. Those are the peramete around which we will be making any kinds of recomme dations. These are not decisions that are going to be made

The other point I wanted to make is that only to certain extent does this committee set its own agenda, that there will be items referred to the committee, perhaps



pending on what legislation comes forward directly from the Legislature. Depending on what legislation, if any, comes forward of a nature that this committee can deal with, the items that the committee would be looking at studying and perhaps involving other people from the public would be set out for us. They could be set out while the House is in session, because this is a committee that does meet while the House is in session, or they could be set out for the intersession period, including the summer.

Some things, such as the lengthening of the time for pre-budget hearings, may be out of the hands of this committee. The scheduling of time and dates may be out of the hands of this committee. Once again, I think the majority party has to take into account, as our party did when it was in government, the enormous pressures on the smaller membership of the opposition parties and the conflicts in committee scheduling that may occur from time to time. This committee cannot operate in isolation, and those kinds of things have to be taken into account.

I was going to make another point, not related to process. I think I suggested before that it might be useful at some point, perhaps even in an informal session, to have the Secretary of Management Board and the Deputy Treasurer in to discuss the process. I really feel there is a lack of understanding and appreciation of the kinds of processes that do take place in budget preparation, and I think that would be useful for everyone. I happen to be very familiar with it because I worked intimately in that in another life, but most members do not know what happens and do not understand, for instance, some of the comments about the advocacy groups proceeding to the ministry. If you do not think they are doing and have done that, no matter what government is in power, you are crazy. If you ask your ministers, they will tell you that day after day their time is spent dealing with and talking to the advocacy groups and learning about their financial needs particularly. In doing that, they are also developing their own argumentation and their own views over what will go forward following and included in the estimates process and in the identification of particular pressures that are coming before the government for funding.

So much of the budget is a given in terms of transfers and things like credit costs and so on, that there is a limited amount of freedom in terms of changing the priority of government in budget setting. The ministers are all involved very much in their own lobbying effort to get what they feel is their fair share of the budget; and to find out about that, they are indeed meeting with people. For us to understand the kind of pressures that are going on, it seems to me, going back to who comes and how and the nature of these committee hearings, we should have as open and as broad a group of individuals and organizations coming before us, because only through that process will we as legislators ever be able to see more than a limited scope of lobbying effort.

Those are just observations in response to what I have heard from other statements today.

**Mr Stockwell:** Not to prolong this debate, I agree with Mr Phillips from the Liberals. I think if you went away for a couple months and thought about it, maybe you

could clarify exactly what it is you see as a process that you would be more happy with. I think we should be prepared to do that.

I am not opposed to relooking at this. I do not think anyone is opposed. I just think there are probably some fundamental flaws in some of the arguments put forward. When you build an argument like the one that has been made by the government side, you add building blocks to an argument, and the flaw I see is the foundation to this argument about access and process and so on. The building block has cracked. It reminds me of worrying about mice in the basement when you have got an elephant on your roof. The problem you have here is you are trying to empower people. That is a nice word, and it is a good little phrase, but to empower people you must have power. You guys do not have power. We do not have power. Ministers have power. Premiers have power. That means, then, if someone is going to have some power to influence, he must be speaking to the decision-maker.

Maybe as a parliamentary assistant you have a lot of input into the decision-making process, but none in the cabinet, and that is where the decisions get made. So in a lot of respects we can pretend and, I guess, pretend to give power. I do not have any power in this government; I know that. What I think we should remember is that we are here to hear from the people. We produce these reports and ask the ministers to read them. If they choose to read them, they do; if they choose not to, they do not. That is all we can do. I guess you paint with as broad a brush as you can and try to invite as many people in, and you have your opinion; I have mine. Usually there are two of us, so we have ours and the Liberals have theirs, and we go on our merry way. And for ever and a day, that is government in this country. To change it, I think you are looking at a major revamping of the process. A major revamping means that you people get a lot more free votes than you do right now, and I do not think you are going to get a free vote in the budget. I understand what you are trying to say, and I think it is an noble effort, but I just do not think there is much opportunity to do that.

The only other thing I would point out, Mr Chairman, is that I am not opposed to any concepts or changes that you want to bring forward. I just want to be clear. I do not really think we are that powerful a committee, so I do not want to spend any more money. If we are going to talk about travelling, that is the biggest expense you could have, and I am not prepared to blow thousands and thousands of dollars on this committee, with negligible, if any, power, to go around receiving input from people that will not be listened to—I should not say “listened to,” that is not the right word—that will not be put to the decision-makers. The point again is about the power. To empower people you have to have it and, frankly, folks, we do not have any.

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**The Chair:** I am in the chair, Mr Christopherson.

**Mr Christopherson:** Thank you. I would suggest the only greater concern than elephants on the roof is maybe bats in the belfry, but we will just leave that sit.



This may scare Mr Stockwell a little—it certainly does me—but I do not think he and I are that far apart in terms of the foundations of the argument. I am not sure where that leaves the Liberals, and probably at that level it is maybe personal and should be dealt with one on one. But anyway, I do not think I disagree that much with a lot of what Mr Stockwell says in terms of the realities. What I would probably disagree with is whether it is at least worth the effort to make the change. I would not disagree that it is a mammoth undertaking, but it truly is a priority for us. We honestly believe that. Now whether we are actually going to be able to change this huge ship of state and make it work differently remains to be seen, but we really want to make that change with a great deal of enthusiasm and I think that sincerely is the message from the Treasurer.

**Mr Stockwell:** That may be worth your while.

**Mr Christopherson:** I hear Mr Stockwell saying that it may be worth our while. I hope so, because we are going to make that undertaking. At the risk of people suggesting that we are trying to do other things, I think it is worth the effort and the political risk to try to make that change, and in the final analysis, if we were to be somewhat successful, I suspect there would be a fair bit of support for that change, if and when it was finally concluded.

Two more thoughts. One of Mrs Sullivan's concerns was about making sure that even more people are heard. Again, I do not have a fundamental difference with that. I think it is important that we have maximized people's input. That is what I am talking about. To me, it would make more sense perhaps if we had a subcommittee of this group that said, for instance, "We're here to deal with Health, and we want to cast the net farther than the committees have done in the past," and we had another group that was looking into Transportation. Whether those were made up of other members or part of this group, I do not know, but that kind of work and time and undertaking is worth it because we ought to be listening to as many people as possible. I am just suggesting this current structure may not lend itself to that. I reject—and it is the last time I will comment on it—I reject out of hand any suggestion that there is an attempt to limit people's access. That is a misinterpretation of my comments. My intent is to try to find a system that allows more input, more access and makes that input even more effective.

The last point, on Mr Ward's suggestion, is that I would suggest there is merit in at least making some interim recommendations while the matter is fresh in our mind. I think it is valid to say that, as we get closer to the process, we may feel that we need to make some changes, based on experience, but I think there is also validity in saying: "Hey, we just came through the process; it's very fresh. Let's at least make some recommendations now based on that experience while it's still a live thought."

**The Chair:** My reading of this debate as the Chair is that we are dancing around the question of how much independent thought or recommendations this committee can have, which to an extent depends on how far the committee members are prepared to go in making recommendations independent of the party, all parties.

I have heard from Mrs Sullivan that the British system has a great deal more independence. I have also heard that the federal finance and economics committee has a great deal more independence. I throw out, as a process of action, the suggestion that we ask the researchers to come back with some information that would contain the rules that have been set out for those committees by their various legislatures or parliaments so that we can have something to compare. There is a free British Airways flight on April 1 and we could all get over there for nothing. Then we would have something to compare it to.

What I think I am hearing—if I am wrong, I am open for debate—is that it really hinges on how much independence this committee is going to have. It is unfortunate that Mr Stockwell left, because I think it is also part of the discussion about power; if this committee is allowed a great deal of latitude and independence to be moving down the road that some other pre-budgetary committees have, the main fact that we make recommendations in the same kind of way that they make recommendations is an achievement of power. There are lots of different ways of achieving power.

Just to sum up, perhaps it would be fruitful at this point to terminate the conversation with a request for the researchers to bring back information about how the other committees have achieved their independence so that we can look at it. Is that acceptable to the committee?

**Mr Sutherland:** Sure. I just might add, Mr Chairman, that we have had some suggestions put forward; they should be noted and they should be on file somewhere so that when the committee comes back to the discussion they can be referred to and dealt with.

**The Chair:** Yes, I think those have been noted. I have made note of them, and I know the researchers have too.

The second point of business is, before I ask if we should adjourn or not, is there any reason to have a meeting this afternoon?

**Mr Christopherson:** Do we not have the issue of deciding what we are going to deal with in front of us? I understood we had tentatively to discuss whether we were going to undertake a review of the cross-border shopping issue.

**The Chair:** We could do that right now. If we do that right now, then I can instruct the clerk—we as a committee can instruct the clerk; there goes that "I" again—to set the hearings for next Thursday morning with various groups that are interested in the cross-border shopping issue, and he can do that this afternoon as opposed to our meeting and talking about it.

**Mr B. Ward:** I suggest we meet this afternoon.

**Mr Christopherson:** I am wondering if we should have a little better game plan than just to say immediately "Fine, let's just have some people in." We should have a sense of what we are going to do and what the process is going to be, again so we do not have people coming with expectations that never get met. I do not want to meet needlessly any more than anyone else, but I think we ought to have a sense of where we are going to go. There are other suggestions my colleagues are mentioning to me that may should be thrown out on the floor that we can consider at the same time and not just take one thing and run with it.



**Mrs Sullivan:** I think that rather than just going around in circles again on process, it might be useful to have something to talk about that is specific. Perhaps the clerk might prepare a recommendation relating to process and the conduct of hearings that would give us at least something to accept, reject or add to.

**Mr Jamison:** There are a number of things that are critical out there that I think this committee should consider having a look at. Just off the top of my head, for example, there are the potential effects of a trilateral trade agreement on this province and the potential impact on Ontario of the constitutional crisis. I know the Conservatives in their dissenting report made reference to the lack of discussion about that potential and the economics that are automatically related to that in terms of deficit. I think it is important that we discuss the potential of a trilateral deal on which the federal government is going to proceed on a fast-track kind of basis. We as a province have to fully prepare ourselves to deal with that happening and to be aware of the impacts that are going to evolve from those things. There is very important work out there to be done by this committee if we choose to do so.

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**The Chair:** My understanding is that with the budget not coming until mid-April, it is not really likely that we are going to get a lot to do from the Legislature between now and then; so we have a fair amount of time between now and then that I think we can fairly confidently take as a committee as time that we can structure. We are committed to the cross-border shopping first, but I am at the will of the committee to do trilateral trade and Confederation as well. We discussed that a little bit prior to sitting.

**Mr Phillips:** Just in terms of process, I seem to recall—unsaid might correct me on this—that we did say to the cross-border group that we as a committee were going to deal with it; so I kind of thought in our informal discussion that we tacitly agreed that would be our first item. I have a difficulty with the subcommittee meeting and saying: "Here's the game plan. Here are the terms of reference. Here's blah, blah, blah," because I think it is tough for us to do it. I do not mind that group of yourself and the three ships being together.

I think we have to lay out our agenda for the year. We talked informally, and personally I am quite interested in the economic impact of the constitutional debate, but I think we need to make certain that we have some direction from the House on that. It will be helpful to the debate whether than harmful and therefore I would like to kind of wait the legislative debate around the committee's report, which comes forward today, I think. If they direct us, I think this committee could be quite useful in it, but I think it has to be very carefully crafted or we could be harmful. I would be quite interested in the debate on trilateral agreement, although I think there too we need some direction on whether that is something that will be helpful to the debate.

There is no shortage. I am just saying I think the first item on our agenda can be the cross-border shopping. It impacts a whole bunch of other stuff that will be informative. Then I think the subcommittee can look at what are the

second, third and fourth issues that we could deal with, and we have got a little bit of time on that, including the constitutional debate, which I could see as being the second item we might deal with.

**Mr Sutherland:** I know we said we were going to do cross-border shopping as the next item, and I would certainly like us to focus in on that and have various concerns about that. I guess my only question is, if we are going to be able to do that effectively, are we going to be able to do that solely from Queen's Park? And then what are the difficulties in terms of taking a standing committee, while the House is sitting, to communities like Niagara Falls, Windsor, Sault Ste Marie and Cornwall? I really think if we are going to have any credibility in terms of doing it, we are going to have to go and visit those communities. I was wondering if either the clerk or maybe some of the more experienced members here could assist me on whether that could be done. If not, maybe we should delay that and go into something we could do more of, possibly the trilateral trade agreement. We could do more of that based out of Queen's Park on our regular days than we could the other one.

**The Chair:** I have been given two notes now on this one. The general government committee has been requested to do a 12-hour hearing on cross-border shopping. I have one note asking if Mrs O'Neill could come here and discuss that with us. The other note is that, given that committee may or may not be able to get to it, given that Bill 4 is still in that committee—

**Mr Sutherland:** I would like to have more than 12 hours. I know that is being put forward, and I am glad to see other members of other committees are interested in it, but I am not quite sure whether the use of the 12 hours will give it the degree of attention that it really needs.

**The Chair:** Okay. Where do I go with this? Come on, folks.

**Mr Christopherson:** I think Mr Phillips's points are well taken with regard to the priorities, and I know that, in talking to our own members in caucus, the cross-border shopping is, as I am sure in other caucuses, a big issue. I do not particularly care which committee deals with it. I do not feel ownership of the issue. What is important is that it be dealt with effectively. I, as one member of the committee, am prepared to accept the fact that this is our top priority and then ask you, through your office as Chair, to determine whether or not that is an overlap of responsibilities. Is the other committee prepared to have us look at it? In other words, do that groundwork for us and, if it is with them, God bless them, we will move on to another issue. If they want us to tackle it, then we will ask our subcommittee to put together a game plan to bring to us for approval.

**Mr Jamison:** I am just a little confused, and I might ask Gerry if he would help me here a little bit. Personally, I believe we are really on a fast track to that trilateral deal. It is going to have economic ramifications here in this province. It is my belief that will happen. I think it is crucial that we really try to assess where the federal government, on negotiating that deal, is going to take us and the effects to this province, especially the manufacturing base of this province,



and the economy as a whole, what effects we can measure. I know we may not be able to measure them all, but at least we will be able to confirm or otherwise prove ourselves incorrect in assessing what a lot of us have in terms of preconceived notions. Possibly you can help me out on your statement about receiving a directive of sorts on that.

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**Mr Phillips:** There is no shortage of really interesting topics for us to deal with and things that I would find intellectually stimulating. As I said before, I think the whole issue of what is the economic impact of the constitutional debate has not been properly debated. The trilateral agreement with Mexico is another one, and our job thing is another one. Those are three overwhelming issues. Each of them, though, I think, is going to unfold a little bit over the next little while, and in the meantime we have the cross-border shopping, which seems to me a bite-sized issue that I felt we made a commitment to a group of people who came in here that we were going to deal with. Do you remember that group? I thought, here is at least one issue we can get rolling on. I happen to think a constitutional debate is going to be obviously huge, but it has to be handled extremely sensitively.

I am saying I personally would like to deal with the cross-border shopping and buy ourselves a little time in case the Legislature would like this committee to deal with the economic impact of a constitutional debate. If that is the case, then that, to me, would be our next priority. We will know that, I think, maybe in the next little while. The Premier and those who are dealing with it may say, "Yes, it is important for Ontario to begin looking at economic impact," and the committee would be appropriate. If it proves that is not in the cards for this committee to deal with, then we move to our third and fourth priorities, which in my opinion could be a trilateral debate around Mexico or it could be around jobs.

I am repeating myself. We have an issue that could occupy our time for the next three to four weeks—an important issue—giving ourselves the time to look at what might become the number one issue. If that is not the case, then that is what I meant. I think the Treasurer and the Premier may want us to look at it.

**Mrs Sullivan:** I also want to express caution about moving into the economic impact analysis of changes in the structure of the country. There have been no decisions yet made. An indication by a committee of this Legislature that it was conducting studies based on one, two, three or four scenarios and was hearing briefs from the public on any of those scenarios, whether they include re-Confederation, a restructuring of Confederation, or independence for Quebec, it seems to me, is in terms of the national dialogue a very dicey proposition at this point. I think it is something that clearly has to be done. Looking at those questions must be done.

I think now is the wrong time for this committee to be undertaking that. We will be having the initial debate on the first interim report of the select committee on Ontario in Confederation, which has been out through the province, starting this afternoon in the House, and presumably there

will be a second phase of that Constitution committee activity, which will be very important.

The Premier has yet to speak in a formal way on matter of the Constitution, and any dialogue that will place will have to follow clearly whatever stand the premier ultimately takes. Signals of a downturn in Ontario economy or an upturn in Ontario's economy, or whatever could seriously distort the nature of the debate, which heretofore been fairly non-partisan in terms of constitutional issues, and could have very serious repercussions relating to the future of the country itself.

I think now is the wrong time for that debate. On trilateral negotiations, we have a lot to learn certainly, that may be something that would be useful to look at the Constitution thing—although I personally think premature for this committee to be looking at—if the Legislature wanted us to proceed in that direction perhaps the summer, with extremely substantial contracts given people who have expertise in the economic area to do analysis that would be needed, then I think that would perhaps a more reasonable time as things unfold a some of the debate.

On cross-border shopping, we did certainly give commitment, to the people who were here, and it is certainly an issue that affects the north, southwestern Ontario and eastern Ontario. It is a province-wide issue in many ways, and it is something that is concise enough, I think that the committee can deal with and make some reasonable recommendations about. I think that is the way to proceed.

**Mr Hansen:** I have to agree with Mrs Sullivan that. In our first subcommittee meeting, or the second one when we had discussed groups that we were going to interview—Mr Sterling, Mr Kwinter and I—all agreed that the next item that would be on the agenda—and I do not think it has changed any; it is more of a serious problem now since the introduction of the GST—is that people are making a tax revolt by shopping in the United States. We have to take a look at this very closely, especially when we have 90% of the population within two hours of the border, the other 10% in the north. I know Mr Sterling, in the discussions we had with the group that came in, did not feel that was all that important. I argued with him on the point that tourists cannot make it into Ontario to spend US dollars if they cannot get across the border and will never make it to Ottawa or Carleton.

It is a very important issue, and I do not think we should backtrack and get sidetracked to get into another issue, because we have businesses now in the Niagara area that are going out of business. We have farmers in Chatham and Bruce who are finding the effect of people in the border towns and bordering towns of actually buying their milk in the US. Even though you do not live within two hours of the border, the people who are over the two hours and live in the north are being affected by what is being purchased by the 90% who live around the borders.

I recommend that we get on with the cross-border shopping and not necessarily, as Mr Phillips said, I believe, that we have to go to all these centres. Money is given out by the Ontario government to do studies in the particular areas, and I think the one thing we should have



fore this committee is the report by the chamber of commerce in Sault Ste Marie, which is a very detailed study that I think was partially paid for by the Ontario government. There is one in the Niagara area; I know \$12,000 is given in that area for Shop Ontario, and I believe Ontario and Windsor and Kingston and The Islands.

Before we make any decision about travelling to hear people, I can tell you that I hear people every day about the tax revolt, saying: "I am shopping in the United States. I am not paying the GST." When the GST came in on 1 January, it actually doubled the traffic to the United States, I would say. On this side, I feel this is one of the most important things we can take on as the next exercise for this committee.

**Mr Christopherson:** On behalf of my colleagues in the government caucus, I would say the commitment would be honoured to do the cross-border shopping. I think that goes without saying. The trilateral trade agreement should be our second priority and leave ourselves flexible. I think the points were well taken from the members of the Liberal caucus regarding the constitutional discussions, the sensitivities, and I think what we are saying is we should remain flexible as a committee to receive any direction from the Legislature at the appropriate time, would they feel that work would be beneficial. We would do the cross-border shopping, and then the trilateral trade agreement as being the two priorities, in that order, for this committee.

**The Chair:** Is that a consensus?

**Mr Phillips:** My only comment would be that I do not want the trilateral one, if in fact the Legislature wanted us to deal with economic impact, which I have a feeling they will not, that would certainly be the number one priority for me, if they wanted us to. I doubt if they will.

**Mr Christopherson:** I do not think we have any choice, do we? The Legislature can literally dictate what the agenda is, if they so choose. So I think—

**The Chair:** That also comes back to this whole notion of independence and what kind of changes in the committee structure there are. If we can go down an independent road, how far do we go down that road and in what direction? Anyway, that is for another debate.

**Mr Sutherland:** If there seems to be a consensus on this, then you as Chair can approach the House leaders, I guess it would be, or whomever, to see whether we could deal with that issue. Mr Hansen is far more knowledgeable in this area than I am. I just think in terms of perception that we are not going to have a lot of credibility if we only deal with the issue of cross-border shopping, from sitting here in Queen's Park.

I do not know if it is going to be possible, but I would really hope in these hearings that we could get some of the

regular people who are doing cross-border shopping to really find out what some of their thinking is in doing it. I mean, we can speculate on some of the reasons, and we know cost is part of it, but I think part of the issue is going to be educational issues, and I just do not think we are going to be able to handle it credibly solely from Queen's Park.

**Mr Christopherson:** Mr Chair, to summarize, does this mean then that the subcommittee will meet to put together a game plan based on the information you find out and that they will report to us with their recommendations at the earliest possible date?

**The Chair:** To take a little leeway here, I would like us to come out of this meeting right now with instructions to the clerk to start setting up hearings for next Thursday morning.

**Mrs Sullivan:** I so move.

**Mr B. Ward:** But we do not know what the game plan is.

**The Chair:** We do know that we are looking at Sunday shopping and—

**Mr Sutherland:** Cross-border shopping.

**The Chair:** Sorry; cross-border shopping.

**Mr Phillips:** I do not mind that. You may want to start us off with a brief of some sort.

**The Chair:** I am getting it in this ear and I am getting it in this ear. The clerk has just suggested briefings from Revenue; Tourism and Recreation, and Industry, Trade and Technology.

**Mr Phillips:** Yes, that is all internal stuff. Then we can go to the public ones.

**The Chair:** Okay.

**Mr Christopherson:** I do not want to be overtechnical in terms of process, but I have had enough experience in government at the local level to know that it is fraught with disaster to begin down a road when you do not have a clue ultimately where you are going. Even if the subcommittee met after the House, gets into its regular business, at 3:30 for half an hour, itself, or 45 minutes, and then we met to deal with the recommendations they make, even if it is a very obvious plan, I would still like to have it on paper so we know where we are going and we can tell people whom we are contacting that this is what we are doing.

**The Chair:** All right. What I am hearing is the subcommittee meeting at 3:30 and full committee hearing at 4 o'clock.

**Mr Christopherson:** Can you do it in half an hour?

**The Chair:** I think we should do it in half an hour. Okay. The subcommittee meeting is at 3:30; the committee reconvenes at 4 o'clock.

The committee recessed at 1152.

## AFTERNOON SITTING

The committee resumed at 1610.

**The Chair:** I see a quorum. The subcommittee, for the approval of the entire committee, has set out a tentative agenda that is extremely flexible. Prior to next Thursday morning, the researcher, Anne Anderson, will distribute some studies that have already been done in preparation for next Thursday morning when we will be able to ask her questions about her study and about what she has found out and so on.

In the afternoon, the subcommittee has considered that we should have the Ministry of Industry, Trade and Technology come and give us information that it has discovered from its own studies that it did last summer, while we were all out knocking on doors. So far so good? After that, the clerk and the researchers will get together and invite people to come in and fill out a hearings list, with the hope of having two groups in the morning and two groups in the afternoon, to try to finish Thursday afternoon earlier than 6 o'clock.

**Mr Sutherland:** Can I just ask on that point, are we sitting right until 6 o'clock next Thursday?

**The Chair:** No, that is not the intention.

**Mr Sutherland:** Is the House sitting right until 6 o'clock?

**The Chair:** Yes.

**Mr Christopherson:** What happens after that, and ultimately what are we looking at doing?

**The Chair:** Ultimately we are looking at producing a report with recommendations in it for the government, if possible; if not, a report that will at least be available for all the members of the House to have to consider the various options and the various problems associated with Sunday shopping. It would be nice to have recommendations that the government or the House could act on.

**Mr Christopherson:** What happens after next Thursday?

**The Chair:** The hearings continue for the next couple of consecutive Thursdays.

**Mr Christopherson:** A raindrop in a storm. Thank you. You have added to it.

**The Chair:** There is no time limit that the subcommittee has recommended. Four Thursdays would give us 18 hours if we sat right from 3:30 to 6. There has been no timetable decided.

**Mr Christopherson:** What about the suggestion of Mr Sutherland of perhaps trying to get out to some of these communities? Did you find out whether that is even feasible while we are sitting as a Legislature?

**Mrs Sullivan:** No, it is not.

**Mr Sterling:** The House leaders will never allow you to.

**The Chair:** The best we could do is to leave here some time around 8:30 in the morning and be back by 1 o'clock.

**Mr Sterling:** I do not think they will allow you to do that. The problem is that it does not relate to what we are

doing; it relates to what else is happening in this place. soon as you draw the members away from this area, the the House leaders and the whips cannot get hold of you and that is why they will never give you permission something like this. If it were something that was really urgent, then you might be able to get it. But I have proven wrong before. You can ask if you want.

**The Chair:** I think the committee would have to decide how much benefit there would be. Mr Stockwell has already indicated that he is not in favour at all of doing any travelling because he thinks the whole process is somewhat—

**Mr Sutherland:** He was referring to the pre-budget consultation process. I do not think he made any comment on the cross-border shopping issue.

**The Chair:** I will be generous and allow that. I have a feeling that he was not too fond of the idea of travelling at all, but that is fine. I stand to be corrected.

**Mr Christopherson:** To follow up on that, the last thing anybody wants to do in tight times is spend more money that is not necessary, and I do not particularly want to go on the kind of schedule really that would have us yank around for half a day and then back in here and trying to do everything else.

However, I believe that on this issue, if we really want to get to the bottom of the problem and give everybody an opportunity to speak, getting to as many of those communities as possible would be fairly important. I would request or suggest that we request you to ask whoever is appropriate whether it is just the government House leader or all of them, or the right place, whether or not a consideration would be given. If not, fine; so be it. If it would, I, as a member, think that would be good. I know that if you were to Sault Ste Marie, for instance, there are a lot of people who would like and really appreciate the chance to come forward and give a committee like this their opinions on the matter, and I have talked to other members who have similar situations in their community.

Having said that, the only other thing I wanted to mention is, I gather that since we met this morning, you have checked and we do not have an overlap of two committees doing the same thing.

**The Chair:** You were checking.

**Mrs Sullivan:** I can speak to that. Is it the standing committee on general government?

**The Chair:** Yes.

**Mrs Sullivan:** General government is in fact going to be dealing with it on an opposition day resolution. They will not be getting to it on their agenda until much later. We are ready to start our work now and it is an opposition day thing, so this committee can set its own agenda.

**Mr Christopherson:** Nobody then, through you, Mr Chair, is perceiving that this would be an overlap of work?

**Mrs Sullivan:** No.

**Mr Christopherson:** Good.



**Mrs Sullivan:** It is our party's opposition day resolution and we are quite comfortable with this committee proceeding.

**The Chair:** When is that opposition day? Do you know that yet?

**Mrs Sullivan:** No, it has not been scheduled yet.

**Mr Christopherson:** You will appreciate that the independent-minded NDPers did not check with anybody. We are just prepared to go ahead and do this. I say that tongue-in-cheek. Could I go back then to the other issue of travelling to those communities?

**Mr Sterling:** I am not willing to travel when the House is sitting. I will travel in the summer to any of those communities that you mentioned, but I am just not willing to go during the House. I am the chairman of my caucus and I cannot be away from this building for more than a couple of hours at most and I have to be within phone, you know, within a reasonable distance. That is the problem I run into and—

**Mr Christopherson:** And I can respect that, truly.

**The Chair:** Did you want to say something, Kimble?

**Mr Sutherland:** I just have a problem with process. I mean we are going to put this report together and I just ask the people in those communities that are most affected are going to question the credibility of the report.

**Mr Sterling:** Let's put it together and start now.

**Mr Sutherland:** Okay. As long as we have some idea of that, but I am just wondering whether that is going to be the main priority or whether one of the other topics that have been—

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**Mr Sterling:** We have nothing else on our agenda at the moment now.

**The Chair:** We can request moneys to bring people in.

**Mr Sutherland:** Yes, I quite realize you can do that. I am still not sure whether the—

**Mr Sterling:** That is not as good as going.

**Mr Sutherland:** Yes.

**Mr Sterling:** In a lot of cases these will be small businesses people who can only be away a couple of hours from their businesses or whatever.

**Mr Sutherland:** That is right.

**Mr Sterling:** I agree with Kimble that it is important that we go.

**Mr Sutherland:** As long as we have the understanding that this is not going to be a three- or four-week process to try to wrap up and make all the recommendations.

**Mr Sterling:** Let's start it now and see where it leads. Well, if we seem to be getting somewhere and we want to go to those communities at that time, you are going to have my agreement. I am not anxious to finish it in three or four weeks.

**The Chair:** Okay. Maybe this could be done in two phases. We could do cross-border shopping and have hearings here and get as much as we can accomplish here and then perhaps do phase two in the summertime and go to

Sault Ste Marie or do the travelling at the committee stage in the summer, provided the House will agree to that. Is that reasonable? Try for an interim report?

**Mr Christopherson:** Can I just throw out an idea? I can appreciate not wanting to be away, especially with the responsibilities that Mr Sterling has, and all of us have in fact. We are not going that far. Some of it is down the Niagara Peninsula. The select committee on Ontario in Confederation, for instance, was doing a lot of travelling out and travelling back in the same day. Is it not possible at all that we drive down the peninsula one evening and we are back here that evening, or back in time for the House the next day? Or is that just not realistic? I ask that in all innocence.

**Mr Sterling:** I do not think that is realistic. Once you go to one area you are meant as far as all the rest go. Then you have Sault Ste Marie calling and saying, "Why didn't you come to our place?"

**Mr Christopherson:** That is an hour's flight. You really could go out and come back fairly quick.

**Mrs Sullivan:** What about Fort Frances?

**Mr Sutherland:** You have to go to—

**The Chair:** Just a minute. I am losing control here. Mr Hansen was next.

**Mr Sterling:** I just think once you start you have to really do a little bit of travelling.

**Mr Hansen:** I think that if we went to the peninsula we would get a feeling, because the same feeling is going to be in Sault Ste Marie and in Fort Frances. It is going to be the same so we get a sample, and if it is necessary, then we can go to these other communities and do the same thing. But I think what you find in Sault Ste Marie you are going to find in the Niagara area or in Fort Frances. It is the same commodities that are being purchased in the United States. I do not think it differs with what border crossing you go across. So I think the feeling that we get from, say, the merchants and the shoppers in the Niagara area will be the same as the shoppers in the United States. I hear the same story from shoppers and merchants in Sault Ste Marie as what is in the Niagara area also.

**Mr Waters:** I am going to do something here that I might regret, but because I am perceived as being from the north I have to tell people that, if you go to Niagara and you do not go to Sault Ste Marie, you are going to have the north upset. They are constantly being seen as being left out of the picture and they would feel that their voice should have been heard from. My concern has been that, in the interim, when you are here, before you start moving, or if there is a problem with moving, how are you going to notify people that this committee is having hearings? I think it is important. I think, as everyone in the room agrees, the little person, the small shop owner or the granny parade that comes across the border in the spring or whatever with all their purchases, have an opportunity to come before the committee.

**The Chair:** That was discussed and there is some money left in our advertising budget. We could advertise in the local community papers. The other consideration



was that we write to the chambers of commerce and we write to the local mayors and the councillors and have it announced through the local media. If the cable TV wants to put it up, then that would be a way of doing it as well. So there is a possibility of advertising it. We have to decide that, too.

**Mr Sutherland:** That would seem adequate. I guess I just want to know, from the Toronto aspect of what we would be doing here at Queen's Park, we would be trying to get a handle in terms of the different ministries, that type of stuff, possibly revenue, possibly what some of the Ontario organizations might think about that, like the Ontario chambers, those groups in here. At that stage, would we then have to probably leave it until there would be time to get into some of those communities? Is that generally what the subcommittee was thinking?

**Mr Sterling:** Yes. The subcommittee members were given a few of the documents that have been already produced on cross-border shopping, and it was our idea to get the experts in to talk to us a little bit about these papers that they have produced.

I think what we should do is write to the mayors, the chambers of commerce, particularly in the border areas, and say: "Look, we are planning this summer to go into some of your communities and ask for first hand experience, and we will advertise that fact when we are there. But in the meantime, we are dealing with this while the Legislature is sitting in Toronto, and if any of you want to come and talk to us now here in Toronto, please contact our clerk."

We may decide, after we hear from these various experts, that either we want to have our legislative research person or we might want to hire some consultant to do a survey or, I do not know, a study that has not been done or is in our interests to find out what other things are. That is the way I think I would proceed on this and that is the way I recommend that we proceed.

**Mr Christopherson:** As to the time lag, it was suggested by the Chair that we could issue an interim report based on the work we can do here and that we would then do the travelling in August. That is what? Five months? We do not want to be perceived to be dragging our heels. There are enough of those accusations going on anyway. I am just concerned about the time lag, and I do not know how that might factor in, to say to someone, "Yes, we are looking at this," and you build in something that says you are not really going to get a handle on it until at least August, and then it will probably be September before anything gets published.

**Mr Sterling:** What are the options? I mean, if there were a better option, I would take it, but—

**The Chair:** Mrs Sullivan would like to—

**Mr Christopherson:** I do not want to be a stickler on something, but—

**Mr Sterling:** Look, I mean, you are just not going to—

**Mr Christopherson:** I did not mean to say we were not going to go to the north. I think of it and to go from here to Niagara Falls and points in between is about an

hour or so's drive from Toronto. The Sault can be flown in the same time.

**Mr Sterling:** But you are not dealing with the Constitution of Canada when you are dealing with cross-border shopping.

**Mr Christopherson:** You might as well be for people that are hurting, though.

**Mr Sterling:** It may be their issue, but it is not the issue of the same magnitude. You people may not like saying that, or the retailers. It is an important issue, I understand that, but I just say you are not going to get, in my humble opinion, the House leaders to agree to us travelling. You say it takes an hour to go to St Catharines, once you get there, you have to sit down and listen to people talk, and that is going to take four or five hours. Then it takes an hour to come back, and that takes a couple of hours. How do you do it?

**Mrs Sullivan:** I think that there has been a lot of work done on this problem in various communities already, where in fact visits, we may well find, would simply be reinventing the wheel in terms of the gathering of information. Let's go through the first phase, see what the experts, people who have done the work on it so far, have to say about the question, see where they have identified problems, see what additional data we think we need in terms of developing a second phase to our hearing process and then perhaps determining that indeed travel is something that we want to request for a latter portion. We can practically expect permission from the House leaders to go to the communities that are affected by cross-border shopping in any equitable way while the House is in session.

Let's see what is already being done. Let's see what problems have been identified, what groups and organizations that are directly affected, apart from those who have done these studies, can be brought in to meet with us on an individual basis.

We have money in the budget. All committees have money in the budget to ensure that people from various areas of the province can be represented in front of the committee and can be subsidized to do that. I think that if we go from there, we may find that with those interventions before the committee, we do not need to travel. We may find, on the other hand, that travel is a very important part of our function.

It seems to me that the question of travel at this point is moot. Let's see what there is to find out and get on with that way.

**The Chair:** I just want to interject here that we have been given an indication that within four or five weeks we will have the budget, and if there are any changes in tax or any budgetary papers that come out of that, they are coming here, which means that we may well have to suspend whatever we are doing at that time to take that on to a committee.

**Mr Hansen:** This last report here by John Winter Associates is dated March 1990. It is one year old. I know some of these surveys are a year old here, but there are some of them that have been done in Sault Ste Marie which were just current, which were presented to the



ding committee on finance and economic affairs. So do have a lot of updated material, and some of the other members here do not have it in front of them. Right now, there was only one copy for each one of the steering committee.

I think we could decide this a lot better with the information that we have from our researcher and we can make a decision. We could talk all day here on whether we have proper equipment or material, but I think just by reading a lot of these—here we go: Windsor, Sault Ste Marie, Thunder Bay and Niagara Falls. We have covered all the areas, and rather than packing our suitcases, I think we could sit down and read some of these reports and discuss them and come up with a better idea after the researcher has done this work.

I think we are sort of jumping the gun and trying to talk back and forth whether we should travel or we should read.

**Mr Christopherson:** I think we have thoroughly attacked the issue and it is pretty clear that the route suggested by Mr Hansen seems to be the most practical one. I am certainly prepared to accept that and do it. Your points are well taken about the budget material that may come, so I am comfortable that this is really the only thing we can do. There are not a lot of alternatives.

**The Chair:** Just to sum up then: We will peruse the information that is available, we will invite in to have hearings people who can come, and then we will decide at a later date what more needs to be done on the issues and decide at that point what the tactics should be.

**Mr Sterling:** Can I just ask, for a matter of clarification for Mr Decker, when he writes to the mayor of Sault Ste Marie, is he going to indicate that it is our intention to have hearings or just be silent on that?

**The Chair:** The committee will decide, but what I am hearing is that that decision has not been made and therefore he could not indicate that we would be making the travel. The decision to travel has not been made at this point so any writings to any local mayors would not include any indication that we would come. It would just be a request for them to send information or send people, if possible. If needed, I guess the committee would have to pick up—

**Mr Sterling:** I made my position quite clear, that I am quite willing to do it in the summer.

**The Chair:** In the summer.

**Mr Sterling:** That is fine.

**The Chair:** Then if that is all we have as business, this committee is adjourned until next Thursday at 10 o'clock.

The committee adjourned at 1634.

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## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Finance and economic affairs**

**Cross-border shopping**

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de l'Ontario**

Première session, 35<sup>e</sup> législature

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des débats  
(Hansard)**

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économiques et financières**

**Magasinage outre-frontière**

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Clerk: Todd Decker

Président : Jim Wiseman  
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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 28 March 1991

The committee met at 1016 in committee room 1.

### CROSS-BORDER SHOPPING

**The Chair:** I see a quorum. I think we should begin morning's proceedings. This session of the finance and economics committee will be examining the question of cross-border shopping. To start us off with a general overview is Anne Anderson, who is researcher for the committee and has been looking into this topic for some time. So if I could begin.

**Ms Anderson:** As there has been a lot of media attention on the size of the problem, I thought I would start off with a look at the data to see whether it is just a recent anomaly or whether it is something that has been going on some time.

Statistics Canada collects information on residents coming across the border, and in 1990, 31 million Canadian residents came back into Ontario from the US. That is an increase of 21% over the year before. If you want just to put that into a little context, you can remember that Ontario has a population of about 9.7 million people, so that is roughly three trips per person if you average it out. That is also a greater increase than happened nationally. When Canadians came back from the US, it was an increase of 17.6% nationally, compared with the 21% in Ontario.

All these people are not necessarily shoppers. They could be people who go on a business trip or to visit friends and relatives as well. But the surveys that I have looked at, anyway, seem to indicate that at least half the people who go to the US go to shop, and many of the ones who go for other reasons also shop while they are there. So I think you could consider a good proportion of the 31 million people as being shoppers.

Another way to look at it is to look at the number of travellers who go across the border and return on the same day and go by car. That, perhaps, is a more accurate reflection of the more recent concern with cross-border shoppers. For example, in 1990, there were 22.4 million Canadians coming back through Ontario border points, and that is an increase of 25% over the previous year. That is roughly two thirds of the 31 million who come back from the US from trips of all durations, whether by car or by plane or by rail. Now, I thought also I would like to put those figures for 1990 in some perspective and look at it over some time, so there are a couple of charts on page 3 that show the number of Canadians coming back through Ontario, which I am assuming really applies to Ontario residents, since 1980. You can see that it was pretty flat all the way through the early part of the 1980s, and it really started to increase after 1986 and it has been going up quite significantly from that time.

The bottom chart then looks at the annual change, and you can see that the three lines represent the total, and the people who came on the same day by car, which is what I am considering the shoppers, as well as the other people. In the last year, between 1989 and 1990, it looks as if it is just beginning to flatten out. So even though it increased very rapidly between 1986 and 1990, it is possible there may be a slowing down of the same-day shoppers.

**Mr Sterling:** Anne, if I can just ask a question. It seems in 1982, right around there, there was a big blip there. Is there any explanation for that?

**Ms Anderson:** I do not know that explanation on my own. There is a slight reduction just before that. I do not have an explanation for that one.

I also thought it would be interesting just to have a look at the other provinces, too, because if they had a similar pattern then it would have some implications on whether it was specifically Ontario policies or whether it was the policies that apply to all provinces in the country. And on page 4, there are the two charts. The bottom one is on a different scale from the top one just because of the size of the numbers, but you can see that Ontario as well as New Brunswick and British Columbia in particular, and to some extent, Quebec, have all increased their number of same-day trippers since around 1986-87.

On that chart, Ontario has the largest number of trippers, but you might expect that, as Ontario is also the most populous province. So I have also looked at it on a per capita basis to try to even that out and see what the relative impact is on each of the provinces. On page 5, it appears that the relative impact is actually greater for New Brunswick and British Columbia than it is for Ontario, when you look at it on a population basis.

Nevertheless, I think the charts all seem to show that there has been rapid growth in Ontario since 1986. It possibly might be slowing, although I am not sure there is enough evidence for that yet, and some of the other provinces, particularly New Brunswick and British Columbia, have experienced similar phenomena.

The same data from Statistics Canada that the earlier ones were based on, actually counting the number of travellers—they also do a survey on the expenditure people make in the States while they are away. The latest ones I have are for 1989 and they indicate that \$260 million was spent by people coming back to Ontario from same-day trips—that is not from all trips, but just same-day trips—and a national \$557 million.

**Mr Kwinter:** On a point of order, Mr Chairman. Are we going to wait for our questions until the very end or can we ask them as we go along?

**Mr Sterling:** I think it is better to ask them as we go along, as long as we keep it short.

**The Chair:** Yes, whatever. Then you have a question, Mr Kwinter?

**Mr Kwinter:** I do have a question. One of the concerns I have: figures that you have of \$260 million by Canadians, so much per day trip for Ontarians; I assume those figures represent recorded expenditures?

**Ms Anderson:** That is correct.

**Mr Kwinter:** I would think they would be minuscule in comparison to the actual expenditures.

**Ms Anderson:** Yes.

**Mr Kwinter:** And I would say that more people do not report their spending than do report their spending coming across the border. That is just a gut feeling I have. I cannot prove it, but it would seem to me that in the times that I crossed the border, there are far more people who just keep going through saying they have nothing to declare than who say they do have something to declare, and I cannot believe that that is the case. Is there any kind of anecdotal information about that?

**Ms Anderson:** I would agree with you that certainly it is the bare minimum that is shown here and is just what people declare and choose to declare in their surveys. I think some of the information that comes through later on, from surveys that different communities have done, will give you a bigger figure. I agree with you. I find that it is quite small as well.

**Mr B. Ward:** Just following on Mr Kwinter, these statistics were gathered through customs?

**Ms Anderson:** Yes.

**Mr B. Ward:** And customs would correlate these figures and this is where we are getting these statistics from?

**Ms Anderson:** The statistics on the number of travellers supposedly is the actual number of travellers, and it is collected at the border. A sample of those travellers is selected to fill in forms that give more information about the purpose of their trip and how much they spent and that kind of information. The expenditure information on this page is taken from that survey.

**Mr Hansen:** The other thing, too, is that when people do come across the border and say they bought \$35 worth of groceries and declare it, there is no paperwork done on it so that has never been added in there. It is declared but not recorded.

**Mr Kwinter:** Following that, if you have expenditures on a trip basis of less than \$100, you can just make a verbal declaration and go through.

**Mr Hansen:** That is not recorded, though.

**Mr Kwinter:** That is not recorded. Exactly.

**Ms Anderson:** Okay. Then I have taken those numbers on that basis and just tracked those over time as well, having deflated them just to take out the effect of inflation. Both the Canadian spending and the Ontario spending increase, as does the average spending. I think a point just to note perhaps in the average spending is that it dips down during the time of the last recession.

One aspect of the cross-border shopping is that it would not be of as much concern, perhaps, if there was as

many US visitors coming to Ontario shopping as there were Ontarians going to the States, so I had a quick look at the number of American visitors to Ontario on page 8. In the first half of the 1980s, all the way through up to 1988, there were more Americans coming into Ontario than there were Ontarians returning from a trip to the US, but the rapid increase that Ontario has experienced has been accompanied by decline in the number of Americans coming through to Ontario, which aggravates the seriousness of the problem, I think.

A number of the communities that are affected have commissioned studies on the impact that cross-border shopping has had on the communities, and I cannot really speak for the studies beyond just reporting on what they have found, so I will just very briefly summarize some of these. In 1989, Thunder Bay asked Ernst & Young, a management consulting firm, to do a study of outshopping in Thunder Bay. This was done on the basis of data collected at the border, as well as interviews with various affected people, and the consultants estimated that the outshopping through Pigeon River, which is the Thunder Bay border crossing point, was \$15.4 million in 1988, which is an increase of about 60% over the previous year.

The number of travellers had increased by 30% in 1989, and the number of people declaring duty to be paid had increased 98%. They found that the products that had the highest value that were being declared were cars, motor vehicles, harvesters, lawn mowers and furniture as well as some construction items like builders' joinery, also auto parts. However, the greatest number of purchases that people made were for alcohol and petroleum. The reasons people gave for shopping in Duluth included lower prices, better service, greater variety and Sunday shopping. This was in 1989.

**Mr Stockwell:** Is that a priority?

**Ms Anderson:** No, it is just a list. The factors that have been identified as contributing to the outshopping were competitive taxes, retail pricing and service performance, retail competition, a vacation mentality, aggressive marketing from Duluth, the free trade agreement, exchange rate fluctuations and general economic prosperity.

In early 1990, the Committee for Fair Shopping, which was concerned with Sunday shopping, commissioned a study by John Winter Associates on outshopping from Niagara Falls, and they did their research on the basis of a survey. They found that half of the city of Niagara Falls had shopped in the US in the previous two months. The respondents shopped there almost once a week, and those who went shopping on Sunday did it almost every other Sunday. Twenty-five per cent had shopped in the US more frequently than the previous year, and the people who went tended to spend more money, have larger families and be younger than the people who were less frequent shoppers.

The main reason given for shopping in the US was lower prices, which were also affected by the value of the dollar. Highest average expenditure was for small appliances and items for the home, and again, most frequent purchases: groceries, gasoline and clothing. They also found that the probability of shopping in the US rises



come. They estimate that supermarkets lose somewhere in the region of 11% to 15% of their overall grocery trade to the US, and they extrapolate that to the region of Niagara to \$55 million in sales, representing possibly over 1,000 jobs.

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**Mr Sutherland:** On the comment about those with higher incomes shopping in the US in the Niagara Falls study, was there any information to support that in the other areas?

**Ms Anderson:** In one or two of the other studies I assume we will come to later—there is particularly another study on Thunder Bay, where it seems as though the people who go to Duluth are middle-upper-income and are more educated people, and they associate that with general tourist behaviour. Going from Thunder Bay to Duluth, at any rate, is a much longer trip. It is a four-hour drive, so you do not cross over to go and buy milk. People look on it more as an entertainment value than just shopping, and it tends to be correlated somewhat with income.

**Mr Sutherland:** That is a great anomaly, that those who have the higher incomes and who can probably most afford to shop in the province are going across the border. I would think it would be some of the lower-income people who thought maybe prices are too high or do not have as much disposable income who would be doing that.

**Ms Anderson:** There is a comment in the Windsor survey that, although the higher-income people were the ones who were doing it now, the people in the survey who indicated they were going to shop more frequently in the future tended to be the lower-income.

**Mr B. Ward:** Following up on Mr Sutherland's comments, do you think that in the past, shopping in the States, particularly Niagara Falls, was approached as an entertainment type of event that people who had greater disposable income would perhaps look on as spending a day in the United States to do shopping, go out for supper, etc., whereas the lower-income groups or individuals very rarely went out for an entertainment event anyway? In the future, do you think that is one way that the statistics could be perceived?

**Ms Anderson:** I think that is one factor in it, yes. People would go for a trip or a day excursion and say, "Well let's go to the States, and while we're there, we'll do some shopping." I am not sure that that applies to the people who are very close to the border any more; it is people who are 15 or 20 minutes away who can go and spend a lot of money. They go and fill up their gas tank and buy milk by crossing the border and coming back again.

**Mr B. Ward:** Yes, they are passing, say, away from St. Catharines, which is a distance away, so to speak. They would have looked at it as an entertainment aspect.

**Ms Anderson:** John Winter Associates also did a survey for Windsor of their downtown market, and there was one section that looked at shopping in the United States. They found, again, that quite a lot of Windsor sales were lost to stores in Detroit. As in the other surveys, groceries, gasoline and clothing were the most common items purchased, and two out of five consumers went

across the border just to pick up one item at a time, which, again, is not the people who are going for entertainment. Those would be the people who would go for a particular item that is much cheaper there. Their survey indicated that 10% of the retail trade was lost from Essex county, which is the county closest to the border, representing about \$60 million in sales and about 650 retail jobs.

They felt that cross-border shopping was likely to increase, and from farther away as well. Again, the main reasons given were price and selection, and the GST was expected to create an additional reason for people to shop across the border.

In their survey, the typical shoppers tended to be younger than average, large family, relatively high household income, but those who intended to shop more often in the US would have the lower-than-average income.

**Mr B. Ward:** In the study done by John Winter Associates for Windsor, the main reasons given for shopping in the US are price and selection. I have always assumed that we have had pretty well the same products available in Canada and in Ontario that they would have in Michigan or New York state. Did they define what selection was or was that just a feeling that there was greater selection?

**Ms Anderson:** I did not see the background data that went into that one but I think from some of the things that I have read elsewhere that some people feel there is a wider range of products available, there is a greater selection of certain things in the States than there is here. I have also seen studies that say it the other way, too, and I do not think that is conclusive at all. But my reading of that was that it was a greater selection there than here.

**Mr Hansen:** I do not know if everybody has had a chance to look at the John Winter Associates main brief and what it says: "What are the main reasons for shopping United States?" It is "lower prices, better value and savings" — 65.7%. "Not too far away" is 7.6. I am just going to go down the first couple there: "better selection" was 7% and "lower gas prices" 5.9 and "stores are open on Sunday United States" 1.9%. You know all indications are that the stores are open on Sunday; that is the reason why. But when people take a look at it, overall shopping in the United States is only 1.9. It goes right down to the bottom, which is 0.3. I like the margin, but I think if you stand at the bridge and take a survey of people as they are going across, it is different from the survey that you actually take in the community. So I think sometimes we should take a look at where some of these statistics are coming from: at the bridge or in the community.

**Ms Anderson:** Right.

**Mr Phillips:** Just a really small point, but on the "two out of five go across just to pick up one item," I think the research says one commodity. It could be they are going to pick up groceries as opposed to one item. Because if it is just one item I would be amazed at that, but it is one commodity, I think.

**Ms Anderson:** Okay. One of the more publicized studies recently has been one that was done by Ernst and Young for the chamber of commerce in Sault Ste Marie, which was again based on border crossings; also Customs



Canada information and a telephone survey. They found that between 1986 and 1989 there was a 74% increase in declarations at the border, 207% increase in the B15 forms, which are the ones you complete when you pay duty, and a 92% increase in verbal declarations. Only the verbal declarations increased at a rate greater than the national average. The 1989 cross-border shopping in the Sault is estimated at \$39 million, which peaks in July and August of each year. Quite a lot of the cross-border shopping is quite seasonal and is different for different months. In the survey they did 36% had bought gasoline over the last 30 days and 27% had purchased milk and groceries. That seems similar to some of the other surveys. As a result milk sales per capita and also beer sales per capita have been declining in the Sault.

They estimate that the loss of goods and services together in 1990 would be \$104 million, and if you look at the indirect effect of that as well, they estimate a total loss of \$141 million.

**Mr Stockwell:** When they do those estimates, they are doing it on the basis of what is declared?

**Ms Anderson:** Yes.

**Mr Stockwell:** So they are saying \$104 million, but it could be \$400 million, \$500 million?

**Ms Anderson:** Yes, it is based on surveys; and they have an economic model, a community impact model that they ring through as well.

**Mr Stockwell:** These numbers are numbers. They are not very accurate, I would—

**Ms Anderson:** Not necessarily, no.

**Mr Stockwell:** I think almost conclusively they are not very accurate. You could talk 4 or 5 times that.

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**Mr Hansen:** I think to get a better bearing on these statistics here, what we need is the number of cars that travelled and the number that declared, to show a percentage. I think this is what Mr Stockwell was looking at also: the number of cars that are travelling across that go through with this \$40. To get an average declared amount that passes through the border, we need a better idea of exactly the total. I think you are right in the ballpark there at \$400 million when \$100 million is declared.

**Mr Stockwell:** I do not think we can get that figure. It is very high.

**Ms Anderson:** Yes. They are the only figures that very much are around. It just gives you some feeling for the minimums that are there.

**Mr Stockwell:** Not having your research, I understand. I do not think we need the figure.

**Mr Hansen:** It is very high.

**Ms Anderson:** Yes. So apart from those studies, it seems to me that it confirms what you saw before: that this cross-border shopping is happening with increasing frequency. There are very frequent purchases of milk, groceries and gasoline, and also of larger items such as cars, furniture and clothing. The reasons that come out from those surveys, I think, are the lower prices and the value of the dollar.

The Ministry of Industry, Trade and Technology is coming here this afternoon to give a presentation, am not going to go into its examination very thorough just to point out that it had looked at this in conjunction with a lot of the communities and had come out in the of last year with a marketing and action plan to help the communities counter the effects of cross-border shopping. In that action plan, they estimate that Ontario has been losing \$340-\$360 million a year in retail sales, with provincial revenue losses of between \$40-\$50 million.

**The Chair:** When did MITT develop this marketing framework?

**Ms Anderson:** They were doing it during the course of the summer and in the early fall. I think it came around October or something like that.

What I have done so far is describe what people have found has been happening. I felt it would be useful to look at what might be some of the underlying causes.

**Mr Phillips:** Just one quick question. The \$340-\$360 million in retail sales per year—what would that be as a percentage of total retail sales? Just a ballpark.

**Ms Anderson:** I was trying to get that on my own over here actually, and found that the relevant document was not in the library. But in 1985, total retail sales were \$45 billion in Ontario. So it would be significantly more than that now.

**Mr Phillips:** So maybe somewhere between 1% and 2% of the retail sales, do you think?

**Ms Anderson:** It was \$49 billion in 1985, and we need to get the updated figure so that we can get some percentage.

One of the most frequently cited reasons for going to the States is lower prices, particularly gas and dairy products, as well as clothing and household items. Also mentioned had been the free trade agreement, Sunday shopping, and the tourist value of the entertainment value of shopping. Sorry, that was mentioned, but that is a conclusion that I looked at.

It seems there are several underlying causes for the price difference, and I am sure there are many more that have listed, but this will be a start. There is the exchange rate, perhaps; lower US costs, which could come from lower taxes and a variety of sources; lower retail real estate or leasing costs; lower prices on foods that are not produced under supply management. There is also aggressive US advertising, non-collection of Canadian sales and excise taxes, including the RST, and also there is the growth of the discount malls on the other side of the border, which I think are attracting a lot of people over from Ontario.

**Mr Sutherland:** Just on the issue of the aggressive US advertising, I recently saw in one of the papers that they tried to do an analysis of how much money you actually do save by going across the border. They included the cost of gas to go there, your toll and then that is on the declared items. I am just wondering how much thorough analysis has gone on in terms of deciding how much people are really saving versus the perception of what they are saving in terms of seeing the price in the ad. You know, the price of the milk is very cheap, but to do that—is there a real analysis of what the costs are?



**Ms Anderson:** I have not seen anything on that line at all, and I think that is a very large part of it, actually. I think that a lot of people now feel that they are going to get a good bargain by going over because there has been so much publicity about it, and I do not know that anybody has really looked at that. I think it would be an interesting subject.

**The exchange rate:** A lot of people have mentioned the exchange rate, so I have graphed the exchange rate between Canada and the US since the time when I had got early data on the same-day travellers. You can see that the line is very similar since 1986, which is when the rapid increase in travellers to the US started, but it does not follow the same trend in the earlier part of the 1980s. In fact, in 1980 the value of the dollar was very similar to what it is now without any similar increase in cross-border shoppers. So I think it may be a factor now but it is not the only factor in drawing people over to the States.

**Mr B. Ward:** In the 1970s, when the Canadian dollar was relatively higher even than it is today, do we have any statistics that go back that far to see whether that had any impact on people shopping in the United States?

**Ms Anderson:** I did not look further back than 1980, but now it goes back at least to 1975, the data they have, and I will look at that and see whether there is any relationship.

**Mr Brown:** Mr Chairman, I am interested in this graph. It would be interesting to see an overlay of Ontario's economic growth put on the same chart because I have a feeling, just looking at it closely, that this would show that our growth was at its peak when exchange rates were at the bottom. I do not really know what that means, but I would be interested to see the information.

**The Chair:** I am not sure that that would have anything to do with cross-border shopping, but it would be an interesting overlay.

**Mr Brown:** I am always looking for interesting overlays.

**Mr Jamison:** We have talked about certain impacts that really combine to put this cross-border shopping in the hands of people and then leave it there and really be attractive to people.

I know of people who cross the border particularly to buy the sin tax items such as cigarettes. It costs \$42 a carton here for cigarettes, \$18 at the border for cigarettes. It seems to me that that has not been weighted in. If you are a smoker, I am sure that is reason enough to go in the first place. Once you are there, then it is reason enough to do some other shopping, too. I think the alcohol-tobacco trade in itself is an attractive enticement to people to go across the border. The average smoker smokes a pack of cigarettes a day. That in itself is a tremendous potential saving for that individual. So I believe that as we tax those products to a greater level and a greater extent than what is happening in the United States, it naturally creates a magnetism to get over there and buy Canadian cigarettes at a carton.

**Ms Anderson:** I think the same thing holds for gasoline and often for milk and for alcohol as well. They are

the drawing cards that take people over there, and while they are there—

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**Mr Jamison:** I just wanted to make it clear that the sin tax items are a major draw, in my mind. They almost turn the key and start the person's motor.

**Mr Hansen:** What Mr Ward brought up on the US exchange rate, the chart on page 8, travellers to Ontario from the US: you show in 1986, when the dollar dropped, the number of Canadians going to the United States sort of dropped also; but what you did see when the Canadian dollar did drop is an increase in American tourists. So if you are looking for an answer there, I think it does have a reflection on the dollar.

I may be jumping the gun a little bit here, but we talk about aggressive advertising, and this appears in the St Catharines Standard quite often. It says: "Attention Canadian shoppers. Beat the recession and the GST. Order your Canadian discount USA today and save hundreds and thousands of dollars." My wife says, "You know, the more you keep talking about this issue, the more you are selling people to shop in the United States, because it's a deal." I do not know where we stop, and the answers we are going to come up with. But this is Creative Investments, Promotional Marketing Dept, 4750 Valley Way, Niagara Falls, Ontario. For \$27, including all taxes, you get this card to get 10% off in the United States. Just about a week ago in the St Catharines Standard there was a flyer, and it says right on it, "Printed in USA," and inserted in the St Catharines Standard. What we have to understand is that Canadian businessmen, to advertise in the United States, will not be getting the tax breaks on the advertising that is going on there. I think that is one area we have to take a look at to be on a level playing field. The American retailers are able to advertise in our papers and get a tax break, where our Canadian retailers do not get that tax break.

**The Chair:** I do not even think they can declare that tax break here in Canada as part of their costs.

**Mr Hansen:** But printed in the United States, they would write that off. Just an insert.

**Mr Kwinter:** I think there is a correlation between the products that are being bought the most in the United States and the need for those products. For example, if you are buying clothing—and unless it is branded merchandise, it is very difficult to really compare—you can go over to the United States and you can see merchandise that comes from Hong Kong or Taiwan or somewhere else. It may be marginally cheaper, but there is really a judgement call as to whether it is a good deal or whether it is not a good deal. Most people calculate that, when you add the exchange, when you add everything else, it is pretty well the same price.

But where you really see the difference is if someone is a smoker. Because it is an addiction and they have to smoke, they can see it right away. If I buy a package of cigarettes in the United States, it is going to cost me X; if I buy it in Canada, it is going to cost me Y. It is the same thing with milk; it is the same thing with beer or liquor. These are things that they buy on an ongoing basis and



they can see the very significant savings that are there. I would also suggest that because the surveys do not take into effect the GST, that is really going to exacerbate the situation.

I spend my vacations in the United States. I have a place down in Florida. There are lots of Canadians and they all say the same thing, "Can you imagine if I had bought this?" They discount the state tax, which is relatively minimal. They say, "If I had bought this"—never mind the price—"automatically I would be paying 15% more just because of the retail sales tax and the GST." And as that hits home, there are going to be more and more people saying, "It pays to go to the United States."

There are organizations that are printing newsletters in Ontario, sending them to Ontarians, and not just in the border cities, but sending them to people in Toronto and people farther from the border states than Toronto. They are organizing buses to take these people over to the United States for shopping expeditions, saying, "The cost you are going to pay for the bus and everything else will be more than offset by your savings."

I think the situation is going to get worse long before it gets better unless we do something to counteract it. I would hope that this committee, once we get past the initial examination of the research, will start addressing those concerns.

**The Chair:** That is the stated goal of the committee, to try to come up with some recommendations that we can give the Treasurer or Revenue on this issue.

**Ms Anderson:** I wanted to turn to the price of gas. That seems to be one of the big drawing cards to get people to go over to the States, particularly the close ones. I have some information from the federal government, from the Department of Energy, Mines and Resources. They collect the average retail gas price for Canadian and US neighbouring cities, and you can see on page 16 that there are six US and eight Canadian cities, one of which is Toronto. These prices are a weighted average of both full service and self-serve stations. This particular one is for regular unleaded gas and it is the full pump price, so it includes taxes. In January of this year the average price in Toronto is 57.5 cents and in Rochester would be 41.8 cents. There is a difference of almost 16 cents a litre in that.

**The Chair:** Did they factor in the smaller American gallon?

**Ms Anderson:** Yes. That allows the exchange rate and converting to that.

**Mr Hansen:** Another thing, too, is when they say \$1.04 for a US gallon, you have to realize that is a very low-octane gasoline they are quoting. Most people who go over to the States do not buy the lowest grade, but buy either the medium or high-test grade; I forget exactly what the octane is, but it is a lot lower than what you would buy over here. You would not put it in your average car.

**Mr Phillips:** It looks as if Canadian gas is about 50% higher than the US. Is that the kind of conclusion we should draw from this? I mean, I assume they are apples to apples here.

**Ms Anderson:** Perhaps not quite as much as that, yes.

**Mr Phillips:** I just look at 40 cents to 60 cents across board here generally. Anyway, it is between 40% and 50%.

**Ms Anderson:** Yes. I took the line that has the Canadian average and the line that has the US average looked at the difference between those over a period of time. They have the information going back to 1980, but have not been able to get it further back than that at the moment, but if you look on page 17 you can see the difference between the Canadian and American averages, both with taxes and without taxes. It can very easily be seen that a lot of the difference is in the additional taxes in Canada. If you look in 1990, the difference was 20.7 cents a litre if you include taxes and 5.8 cents a litre if you exclude taxes.

**Mr B. Ward:** I could be wrong, but it is my perception that the Americans still import a large amount of oil, which they refine for their gasoline. Does the oil and gas branch of Energy, Mines and Resources Canada have an explanation? When you take away the taxes, our costs are still higher than the American. Do they have an explanation as to why that would be?

**Ms Anderson:** I have not gone into that, although you look on the next page, there is just a rough breakdown of the components of the price. On those two bars, the bottom is the crude cost, which actually looks to me to be very similar. The Canadian cost for refining and marketing is slightly higher and then the taxes are higher still.

If you want to look at it specifically in Toronto, on the next page, you can see the components for the Toronto price of gas. The crude cost is 26.5 cents a litre—this is for December 1990—federal tax 12.3, provincial tax 11.3, refining and marketing 8.7, for a total of 58.8 cents a litre. The federal tax would be about 21%, provincial tax about 19% of that total price.

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**The Chair:** Why would the refining and marketing costs in Toronto be so much lower than the refining and marketing costs in Calgary?

**Mr Kwinter:** Mr Chairman, I hate to take the time of this committee, but I think it is important. The Minister of Consumer and Commercial Relations, and every minister before and since me, always has to answer for gasoline costs. They have really nothing to do with it; it is a federal issue. But there is something that most people do not understand, and I listened to my colleagues in the House of Commons and they are always railing about how come the costs in northern Ontario and eastern Ontario are so much higher.

Interjections.

**Mr Kwinter:** It is a common question, but I think people have to understand the issue of gasoline marketing. What happens is that the Toronto market, which is the most competitive market in Canada, is an unnatural market. There are a lot of guys—and we had problems when we were in government—who can go across to Buffalo and buy a tankload of gasoline on the spot market, bring it across and sell it through the unbranded stations; if the going rate is 45 cents a litre,



it at 41. They still make a very healthy markup. But they are jobbers: They do not refine it, they do not do anything. They just go and buy spot oil and bring it in and sell it. And people, in their buying of gasoline, and the one thing with cigarettes and milk and beer, that is why they go to the United States: They are very, very price conscious.

People are, in many ways, illogical. They will be driving along a road and they will see gasoline at 43 cents. They will drive four miles and see it at 45 and say: "Oh, my God. I missed that station." They will turn around and they will drive back to buy it at that 43 to save the two cents a litre, and they have spent more gas going back to get it than what they save, but they are very, very price conscious.

And the gasoline companies are very, very price conscious, and they want to try to keep their market share. So what happens is that these what they call renegades come and sell it four cents below market. The next day, the gasoline companies decide, "We have to meet the competition," so they will take it down and they are, in fact, not making the kind of money they normally would like to on their gasoline to get a fair return on their investment, but they are trying to meet the market, and as soon as this guy is out of his gas and has to buy it through his regular channels and puts the price up again, they put their price up. So it is a very, very fluctuating market because of the competition.

The minute you get out of that market, and the minute you get into these remote areas where you do not have a service station on every corner or every three blocks or every six blocks, then they have a stable market and they say, "This is the price we should be getting to get our kind of return, and that's what we're charging." It is the competition, it is the market that dictates the fluctuation. They will decide, "Competition be damned; we're going to keep the price high," but they will lose market share. And the reason people go to the States—most people could not tell you what brand of gasoline is in their car, as long as the price is right. You cannot refine gasoline in your backyard obviously—it is gasoline that is going to work. They will buy it, and buy it strictly on price. That is what happens. As I say, when this thing came up when I was the minister, I visited all the gasoline companies and I was satisfied that is a fact of life.

Now, the federal government has set up, to my knowledge, at least three royal commissions to look into the pricing of gasoline, and every one of them has come back and said, as far as they can tell, there is no collusion, there are no artificially high prices. It is a problem because it is one of the few products that fluctuates so rapidly and there is the feeling that, how come everybody is at the same price? The reason for that is the competition, because if you drive down the street and one guy has it at one price at one corner and it is one or six cents or two cents or one cent or a cent cheaper across the street, that is where you are going to go, unless you have a credit card only for that one guy. But generally, if you have a general credit card, you will go wherever the price is cheaper, and that is why they are always trying to match each other's price, so that no one does not get a price advantage on it.

I am sorry for the lecture on gasoline pricing, but it is something I spent a lot of time on, and it is something that is very emotional, and people go crazy.

Just let me just finish with one other thing. When I was minister, the price of gasoline on one particular day went from 34 cents a litre to 42 cents, and everybody went wild. They were calling for public inquiries, royal commissions and everything else. And the main problem was the big jump overnight.

Very recently, within the last two months, the price of gasoline has been up to 62 cents a litre. It has dropped back again, but right after the Gulf war started, it went up as high as 62 cents. But it was a very gradual increase, and people were unhappy but they were not calling for anybody to do anything about it because it was gradual. It is the big jumps and the seeming collusion. How come they are all at the same price and they all change at the same time? The reason is very simple: They are meeting their competition because gasoline is so price-sensitive that people will go wherever they can get the best price.

**Mr Sterling:** Sounds good to me.

**Mr Kwinter:** The end of the lecture. Sorry.

**Mr Sterling:** What is the moral of all this, Mr Kwinter? We need more jobbers or more spot price people or what? We need them in eastern Ontario, I will tell you.

**Mr Kwinter:** The moral of the story is that the petroleum refining business has barriers to entry. As I say, the jobbers are buying excess gasoline on the spot market. But you cannot set up a refinery in your backyard. The cost of being in the refining business is billions of dollars, and the moral of the story is that unless we can get greater competition in the field—which is what happens in Toronto and does not happen up in the north and in eastern Ontario, where there are far fewer gas stations and where you may have one or two in a 50- or 60-mile range—they have a captive market. They charge the price they want to charge, and if you do not like it, you do not drive. It is as simple as that, whereas in a very competitive market, competition works. Competition is in there, and these guys do not make money, but they make money on everything else and they keep their market share for the time where they can increase the prices.

So there is a lot of pressure on the gasoline companies in the metro areas and in the border towns. If they try to get the gasoline prices as high as they can get them so they can make what they think is a legitimate markup, unfortunately the market works against them. I am not crying for the gasoline companies. I am just telling you the facts as they are.

**Ms Anderson:** The Ontario Border Communities Task Force on Cross-Border Shopping, when it came to the committee for pre-budget consultations, had some information about gas prices then. I believe they are coming to these hearings in two weeks' time, so I will not go into that in any great detail.

They just mentioned that the border communities, they estimate, lose 300 million litres annually in sales, and that the revenues lost as a result of that, \$116.4 million, of which almost \$34 million are provincial taxes. One of the



solutions they are promoting is the use of graduated gas tax zones from the border, but I am sure they will go into that in more detail when they come.

Another item that has been mentioned as a drawing card is the price of milk. The federal government and Agriculture Canada have undertaken several studies to look at this in some of the provinces, as a result of people going over the border so much. They have already completed studies in British Columbia and New Brunswick. They have done one in northern Ontario, which I believe was in Sault Ste Marie, which is completed but not yet released, and they are apparently doing one for several border points in southern Ontario.

In the studies they did on the east and west coasts, they found that for the price of milk, if you take 2% milk in New Brunswick, it was 41% to 70% higher in Canada, and in British Columbia it was between 36% and 60% higher. They estimate that the two provinces are losing 4.2% of sales in New Brunswick and 7.6% of sales in British Columbia to the United States. There is a similar situation for cheese, although it is not as bad in New Brunswick as in British Columbia.

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The next page just shows this graphically for the price of 2% milk. The difference is a little under half the price, I would think. This was in 1988, I point out—not very current, but I do not believe it has changed.

Another factor cited quite often is taxation. I have not looked into this in any great detail at this stage. I just want to draw it to your attention. There is a study that the Canadian Federation of Independent Business has done on taxation and cross-border shopping, comparing two cities in Ontario and the US. I heard something on the news this morning, too, that they have done one, I think, between Quebec and a neighbouring state. They looked at the effect of total taxes, which would be wages, local taxes, income and capital taxes and commodity taxes, and they find that both large and small businesses in Toronto have a higher tax burden than their counterparts in Buffalo. You can see that demonstrated on the graphs on page 24, which I copied from their brief.

They attribute a lot of the difference, particularly in Toronto, to higher local taxes, particularly for the small firms. The situation is similar in Thunder Bay and Duluth, although it is not as severe. The Canadian Federation of Independent Business is also scheduled to appear here in a couple of weeks' time.

Another item mentioned is the non-collection of duties and sales tax at the border. Revenue Canada is responsible for the collection of federal customs and excise taxes. It does not collect provincial retail sales tax. In March this year the Minister of Revenue announced a new system to try to speed up visitors, or residents returning across the border from the US, and as a part of that program, that express lane, they have devised a system to expedite the payment of duties. Under this system, residents can apply to the government and give a VISA or MasterCard credit card number. They will receive cards which have different kinds of duties, different goods on them, with blanks to be filled in, rather like a lottery card would be, so when you return and cross the border, you can go through the express

lane, put your card in a box and go right through. cards are collected and duties are calculated, then charged to your credit card. This is happening in British Columbia at the moment, and they are planning to try it in Ontario too. When I talked to Revenue Canada they were reluctant to say exactly where in Ontario they are going to try. I heard they are planning to start it in May, but they are fairly non-committal at this point.

I do not know now whether this will help or hinder cross-border shopping, whether it will ensure more collection of duties or whether it will encourage smuggling in for having the express lane. We will have to see that certainly does not help the collection of provincial taxes.

**Mr Phillips:** Two things. One is just for your direction on the role this committee should be playing on cross-border. I think mail order is a growing issue, but I do not know whether you put some bounds around what we are going to deal with on this particular committee or not.

**The Chair:** We have not put any bounds on it. I think the issue primarily, though, is to investigate why people go across the border and shop.

**Mr Phillips:** I tend to think that is probably right. I just think that if we get beyond that, this could be bigger than life itself.

**The Chair:** I have not heard anybody really as concerned about mail order.

**Mr Phillips:** It is just that it is in here and I think it is going to be growing. But I agree with you; I think it is going to get into more than that. My detailed question is, what are the kind of general duties on these things, so I have some scope to think about and take-

**Ms Anderson:** On things like milk?

**Mr Phillips:** Can you categorize groceries? I just do not have any idea personally.

**Ms Anderson:** Can I bring that back to you this afternoon? I have the tariff schedule, but it is in my office.

**Mr Kwinter:** Maybe I can be of help. Eighty per cent of all of the goods and services before the free trade agreement were duty-free. Twenty per cent of the goods and services that were dutiable or had a tariff on them averaged between 7% and 10%. The tariff ranged from a low of less than 1% to about 40%, but on average it was between 7% and 10%. That, of course, over the next five years and 10 years is going to be reduced to zero. It comes down to one tenth per year for 10 years and one fifth per year over the next five years. So that is the range we are talking about. In terms of the specific items, I would imagine it is not just meat; it would be meat products, dairy products, it would be those categories. It would all have a different tariff depending on the protections they are given. But the range between 7% and 10%, is the tariff that is in place.

**The Chair:** The other thing, to refer to Mr Kwinter's point, we have some very high standards in terms of fat content in our meat and so on that are not in the meat across the border. I guess if people go across the border and they are getting a deal, are they really getting a deal if they are getting 7% or 8% more of the meat they are buying is going to dissipate in terms of fat? So there are a lot of factors here



**Ms Anderson:** The next section was the free trade agreement, but I think it has almost been covered, except that I have a feeling that a lot of people had high expectations of lower prices when the free trade agreement came into place. And when those were not realized immediately, because of the longer implementation period, a lot of them have been encouraged to go across the border and get the goods at a lower price there. I think a lot of the effect of the free trade agreement at the moment is one that is perception rather than reality.

It will develop more as time goes through. But I think overall the effect on the duties at this stage is not great. I haven't listed the schedule that Mr Kwinter was mentioning before. Just a couple of examples: The duties went off immediately on things like telephone handsets and skis and computers. They are coming down in five stages on things like coffeemakers, hairdryers. The slowest stage, the equal annual stages would apply to, I think, things like milk, cheese and also clothing, which are items that are often bought in the States.

Distance from the border obviously has some impact on how often people go across. John Winter described a little model. There is a convenience zone that is within 15 minutes of the US border, where people just go back and forth very easily for milk and groceries. A larger one takes more like an hour to drive, and people will go and buy something and small appliances. About half the Canadian population lies within an hour's drive of the US, according to him. The third zone goes up to an hour and a half, where people would more likely go for the slightly bigger items such as electronic items. I have a feeling that those distances have actually expanded and that people even from an hour and a half will be going to buy clothing and not just for the big, infrequent purchases.

**The Chair:** Yes, in Ajax I had a phone call on the weekend and they indicated that they go down on a regular basis even from Ajax, and that is two hours. It is two hours drive from where I live to Buffalo. What was really interesting was he said he was going down to buy a VCR. He said he could get it for \$200 and I had seen a VCR in the newspaper for \$249. I figured that with exchange rates it works out to be almost the same price. No, no, he is on his way down.

**Ms Anderson:** Finally, just to elaborate a little bit more on what we were talking about earlier on the link between tourism, how it seems as though people who come from further distances will go to the US as part of an excursion or a trip and do their shopping while they are there. There is a study going on at the moment in Thunder Bay. One half has been done, which was looking at a survey of people who go from Thunder Bay to Duluth, and the second half is under way at the moment for the return, people who come from Duluth to Thunder Bay. They also found that it was the wealthier and more educated residents who went down to Duluth, and almost all did shopping while they were down there; for 45%, it was the main activity they did when they were in Duluth. However, when they were asked to rate Duluth and its attractions in

relationship to Thunder Bay, about half of them found it was as good as Thunder Bay was. The authors concluded that this supported the idea that people wanted to go just for the change and for the trip, not necessarily specifically to go and buy certain items.

I think Thunder Bay is slightly different from some of the other crossings because it is more isolated. It is further from the nearest big city and its closest city is in the States rather than in Canada.

**Mr B. Ward:** Within one hour's drive: they included Kitchener in that area. They must be going at a pretty good clip to make the border in one hour from Kitchener. I am assuming that when they did this study, they did the speed limits. I think Kitchener is more than one hour, because I think it is at least an hour from Brantford.

**The Chair:** It took us an hour and a half from here to Niagara.

**Mr B. Ward:** Yes. The consultant made the statement that almost half the Canadian population lies within one hour's drive of the US. Well, that would put that statement out of whack if they have used the wrong regions.

**Ms Anderson:** I would tend to agree with you. I think the idea was that there were kind of zones of distances and people would buy different things coming from those different zones.

**Mr B. Ward:** Perhaps they fudged to a degree.

**The Chair:** Moved the border?

**Mr Phillips:** No, no, lowered speed limits.

**The Chair:** We are beginning to get through this. I had thought about taking the bridges down and making them paddle across.

**Ms Anderson:** Another tourism study that relates to this somewhat is a competitive assessment between Niagara Falls, Ontario, and Niagara Falls, New York, that was done in 1989. They found that although Niagara Falls, Ontario, had a lot of natural advantages, these could be overcome by man-made attractions in New York. On the New York side, all the levels of government were working together to help give incentives for the development of things like the discount malls and other large packages that were attracting people into the New York side of Niagara Falls. They did find that there did not seem to be any major price or quality differences in accommodation or attractions except for alcohol and gas. So it seems as though Niagara Falls, Ontario, is beginning to be challenged more and more by man-made attractions in the US rather than—

**Mr Phillips:** Person-made.

**Ms Anderson:** Person-made. I am sorry.

Finally, one last study I saw was done by Americans looking at the effect of Canadian tourists in Washington, in the city of ANSpokane. They found that three quarters of the people from Canada who came to Spokane went there to shop. Almost 60% stayed for two nights. The majority, again, were middle income. They were worried about it because they felt this was not enough. They were comparing it, for example, to the Mexicans going over the border to Arizona, who spent \$517 million in a year, whereas Canadians going to Washington spent only \$17 million. So



they were trying to go at it from the angle of trying to encourage more Canadians to go shopping.

Finally, those are just some of the issues and some of the underlying causes. There are many others that I have not begun to look at yet. One was alcohol, which has been discussed. Another is whether or not all goods are cheaper in the US or whether there are some here that are better. I have seen some surveys of food baskets, for example, where, when you add up the whole basket, it is actually cheaper in Canada than in the US. I think it would be interesting to know whether it is just a very few selected items that people are going down for and that the rest is of better quality or better price or not.

Look at reasons why the US are not coming up and spending in Canada, because, as I said, it would matter less that Ontarians were spending in the US if there was a reciprocal level of spending in Canada.

Then there is also effects on other industries as you go back through the production chains. There are effects on the agricultural industry, effects on manufacturing, as retail jobs get lost. I have not looked at that at all or the comparisons.

Then there is whether there are any links with the general economic cycle, too; whether it has been increasing as a result of the economic prosperity in Ontario in the second half of the 1980s and whether it will decrease as we go into a recession or not.

There is the growth of all the shopping malls and there is also cross-border advertising, which is being heavily promoted.

Finally, I would just like to mention that there is a video available in the library, if anybody is interested, of a Speaking Out program that was conducted in I think January of this year, either January or February, with Harry Brown as the host. It took place in Thunder Bay and he had a panel that included the chamber of commerce from Thunder Bay, John Winter, Professor Dille from Lakehead University and Mark Adler, I think his name is, a man who has written a book encouraging people to go and shop in Buffalo. I cannot remember the title offhand. Anyway, that video is available in the library. It is an hour. The first half is panel discussion and the second half is questions from the audience.

That is as far as I have gone at the moment.

**The Chair:** Are there any other questions at this time? No questions?

**Mr Sutherland:** This may be comment at this time. First of all, thanks to research this is a very good document and gives a good handle in terms of bringing some of the issues to the forefront. I certainly hope we will take some time in terms of dealing with some analysis, and hopefully some of the groups coming in will deal with the analysis of the perception of everything being cheaper in the States and the reality by the time you add up all the costs of going across to shop in the United States.

I know people like Ron, who are right there in the border communities, probably feel the impact on a far more regular basis, but I am very concerned at the number of people from my constituency who now go across on a regular basis, at least once a month, to the United States. This is only anecdotal information, but it seems to be

increasing tremendously. In my riding we are two hours from the nearest border. It is really troubling and concerning, I think. I sit there and try to understand it, and it is very difficult for me to understand why these people are doing that in their sense that somehow in the long run they are saving money, when in many ways it would seem to cost more.

**Mr Jamison:** I would like to say that I also am aware that there are people as far away who are starting to talk about cross-border shopping on an ongoing basis rather than every once in a while. My own belief is that many of the products that are over there are not significantly different in price. I think I have alluded to a couple of almost identical items that people will refer to almost immediately, if we were to strike up a discussion with them, as examples to indicate that things are in fact less expensive in the United States. But having said that, we have to understand that in our area of safety net and social programs, we are more than the jurisdiction they talk about, and of course those things cost money also.

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We, as have previous governments and governments long back as I can recall, have always found it more acceptable, and of course in the public's eye it always has been more acceptable, to tax those products that have high health costs to them in the form of sin tax and so forth. People refer to those things immediately if you were to strike up a conversation with those people. At the same time, we have to understand that our system up here is different from theirs. That has an impact, I am sure, on most people when you really talk to them about the issues. I would realize, and most people I speak to respect that our programs up here are superior, our health coverage is superior, and so forth.

Having said that, there is an obvious bottom line that it takes a great deal of money to fund those programs, and in the overall sense you are really talking two different systems.

**Mr Hansen:** I have to agree with Norm in that particular area, but another area we have to take a look at is the products that we are purchasing over there. For one thing, the product you purchase here in the appliance field is CSA approved. A lot of these drills you buy for \$9.95 would not sell in Canada because they are not properly insulated. It could be a Black & Decker drill, built in Mexico and sold in the United States or Canada, but there is a difference in the construction of that particular drill; a lot has to do with the CSA.

My wife is in the vacuum business. She took a look at a certain brand we sell over here and it was half price in the US in a flyer, but one thing you had to note though was a smaller motor. That motor would last about a year, whereas the ones we sold were larger. So you have to take a look to make sure the product is identical, and a lot of people are not buying the identical product in the United States.

**The Chair:** I would add, just on the CSA, that if you bought a toaster in the United States that was not CSA approved and you put it in here and it burned down your house, your insurance would not cover it. That is all.



**Mr Phillips:** It is a fascinating subject. Just a couple things that would be useful for me, at least: Whatever we have in terms of understanding the consumer, there are a number of people out there, maybe a large number, for whom shopping is like a hobby.

**Mr Sutherland:** Born to shop. Shop till you drop. Madison Avenue has won out.

**Mr Phillips:** Some of us sail, some of us make model engines, and for some people, believe me, this is the most important thing in their life. It is the "Born to Shop" or whatever it is bumper stickers. I do not think we can ignore it, because I think in the end we are going to have to deal with reality versus what we would like to be. Our intentions, I think, are going to deal with what actually will work versus what we would like to work. I think understanding the consumer, probably in the end, is going to be really important.

Second, wherever we can get a kind of comprehensive analysis: I think people will come to the committee with their own self-interest at heart, obviously. So we will see the Canadian Federation of Independent Business saying fees are too high; we will see somebody else with some other one. We have to look, to the best of our ability, at reality. The example I always use is health care, where our cost is 2% on payroll. Maybe if you are in the US, you are paying at least 6% of payroll to purchase the same service in the US; but people only talk about the employer health plan, never about if you were operating in the US.

The third minor point I would make is: Somebody was surprised that higher-income people were the people shopping in the United States. All the consumer research I have ever seen says the smartest shoppers are the ones with the higher income. Maybe that is how they got there, I do not know, but any research I have ever seen reports that. People with lower incomes, for whatever reason—they do not have the time, they have a big family to look after, they may not have the wherewithal to do it, they do not. So I completely support, probably intuitively, the research that says that is who is doing it right now and would suggest it is consistent with my thesis that we have to understand the shoppers and realize they are not necessarily like all the rest of us, or maybe we are not like all the rest of them, or something like that.

**The Chair:** I am not going to get into that one.

**Mr Sterling:** As you may know, Mr Chairman, I was very much involved in talking about the same point Mr Phillips brought up as to high-income people who are doing the shopping. When I was looking at statistics related to the habit of smoking, if you had a grade 8 education or less—these are statistics that are about three or four years ago—there was a 50% chance you were a smoker. If you had a high school education or less, there was a 35% chance you were a smoker. If you had post-secondary education, there was only a 20% chance you were a smoker. So therefore you would assume that the people who were better educated would not smoke and, therefore, I suggest that probably the better educated people are finding the barriers first because they are reading about it or whatever. In any rate, that was not the point.

You mentioned in your brief—I just want to get this very clear in my own mind—that if I am over in the United States for, I think it is, more than seven days—it is not important, the actual time—I can bring back \$300 duty free. If I am over more than 48 hours I can bring back \$100 duty free. However, if in fact all of the tariffs are gone in 10 years, 1 January 1999, do all of those prohibitions go away? What happens on 1 January 1999?

**The Chair:** I think Mr Kwinter has the answer to that.

**Mr Kwinter:** This was one of the greatest fallacies when free trade was sold. I would go out and talk to consumers and they got the impression that once the free trade agreement was passed, you could drive over to the United States, open up your trunk, fill it up with everything and bring it back. That will happen in Europe in 1992, because they really have economic union—they are going to eliminate customs barriers at their frontiers—but that is not happening in Canada. The free trade agreement does not provide for the elimination of customs.

In order to protect the economy, there is still going to be restriction as to what you can bring in. You can only bring in so much at a given time. The big issue is that some of them will have a tariff and some of them will not.

The other common misconception is that many of the attractive items that are purchased in the United States, like VCRs and TV sets and tape recorders and CDs, all that stuff, hardly any, if any, are ever made in the United States. Under the free trade agreement, in order for it to qualify it has to have at least 50% content of either Canadian going that way or United States coming this way, so there is not going to be any tariff reduction on goods that are not manufactured in the United States. So that is going to take care of that situation. The tariff will be reduced on those items that meet the content rules, but there will still be restrictions as to the amount of products you can bring in without an import certificate or without going through the whole business of being a regular importer. But for the person coming across the border, there will still be restrictions as to what they can spend when they leave the country.

**Mr Sterling:** I do not understand that, because I can go over there now and buy something and pay the duty on it. Let's say something has a 10% duty on it at this time. I am not restricted to \$300. I am not restricted to \$100. I can bring back whatever amount I want to bring back. But once that is gone, how are you going to restrict me in bringing back whatever I want to bring back on American-made manufactured goods? Let's say a US-made car: What is going to restrict me from bringing that back and just paying my GST and my PST as I cross the border? Is there going to be any restriction? Do you know, Anne, or can you find out for us?

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**Ms Anderson:** I will find that out. I do not know that. I know there is the content problem; we will always create duties for that.

**Mr Sterling:** We are assuming the content problem is taken care of. I know it is an important consideration, as Mr Kwinter has indicated.



**The Chair:** Mr Kwinter was answering Mr Sterling's question and had his hand up for something else.

**Mr Kwinter:** I just wanted to comment on two things. I wanted to comment to Mr Phillips that being a sailor or being a shopper are not mutually exclusive. Just because you do one does not mean you cannot do the other.

**The Chair:** You could sail over.

**Mr Kwinter:** Yes. I do not think you can categorize shoppers. I think everybody is a shopper, regardless of what other hobbies they have, and it is something that has to be addressed.

**The Chair:** Some of us are not shoppers, Mr Kwinter. I can tell you right now some of us are not shoppers.

**Mr Kwinter:** The other thing that I think is important and it is unfortunate in that—I want to address some of the things Mr Hansen said. You can make the argument—I should not say you can; it is almost impossible to make the argument. You can try to make the argument that the quality of life is better here, that every time you buy something in the United States you are potentially putting a Canadian out of work because the product that is not sold in Canada means that worker who is making that product is not going to be around to make it. But it really falls on deaf ears. It is a difficult thing to sell, to tell people, "Don't go across the border and buy there because by doing it you are depriving maybe yourself or your family or your neighbours of a job, because every time you buy something there it means you are not buying it here and if it's manufactured in Canada and people aren't buying it, the plant is going to shut down and you are going to put them out of work."

I remember there was a huge campaign that went on in the late 1950s called "Buy Canadian" and the Ontario government had it and said, "Some things have to be bought somewhere else." They used the hippopotamus as their symbol, saying that if you need a hippopotamus obviously you have to go to Africa to get a Nile hippopotamus, but if you need anything else that is made in Canada you can buy it here and you should buy it here because it is in our economic self-interest to keep the purchasing power here because that means there are jobs here.

Unfortunately, it is a tough sell. How do you get that message across and how do you get people looking and seeing these ads and saying, "Gee, yes, but I better stay here and keep those jobs"? I do not know how you do it. I think that is one of the things that we as a committee are going to have to address, because it is a significant problem and unfortunately too few Canadians realize the result of this cross-border shopping. It is more than just economic. It is economic in the broad sense, but it is more than just saving the dollars and cents now. It could impact on the whole economic structure of the province.

**Mr Hansen:** On Mr Sterling's question on the importing of cars, the one thing I would like to see, if Anne can take a look at it, is the GST being applied against a car that comes in duty free which is seven years or older. I know that when you go to register it at the licence bureau you will pay the 8%. Is anybody straight on that, that you pay your GST at the border if it is duty free? You do not?

**Interjection:** No.

**Mr Hansen:** Okay. This is one area. The other thing that I met with the Lincoln Chamber of Commerce Tuesday night and, bringing up cross-border shopping, of a sudden Lincoln is a border town. In the paper it is Welland, St Catharines, Port Colborne, Fort Erie and Niagara Falls, but all of a sudden we wind up getting out a little farther and they said, "What is a border town?" I think a lot of people come from Hamilton. I do not know where to draw that particular line. I think Mr Ward earlier had stated Kitchener as being a border town also within one hour.

The other thing is that we are talking about appliances. We are talking about radios, CD players, but one of the businesses in Beamsville, part of Lincoln, is a block plant. I can tell you the owners of the block plant were quite upset to see cement blocks coming into Beamsville to build a house, which were brought in from the United States, so it is not just radios, CDs and that. I had a person come up to me saying he bought the panelling for the outside of his home, which is made by Canfor, in the United States and saved \$30 a sheet—imported into the States. So we have a lot of areas to take a look at. I think when I was talking to Mr Sterling earlier about different things in our last meeting there was the point: why is there a price differential in particular items? We will have to take a look at that.

**Mrs Sullivan:** One of the things that has really struck me about the whole issue of cross-border shopping is the fundamental question of the price of products, whether they are made locally, whether they are made in Canada or the US, whether they are imported to those places. There are still enormous differences in the price cross-border.

I think it might be useful for us if we are able, through our research phase, to actually look first of all at what the economic impact of retailing is on particular communities and then, second, look at what the input costs are on one side of the border in comparison to the other. I am thinking of things like the usual overhead costs, the cost of space, rental, telephones, whatever; the kinds of market sizes that are appealed to; the kinds of advertising and promotional commitments that are made in those communities; whether the retailer is purchasing in volume to meet a larger market or whether in fact in our border communities we are finding that the retailer is making smaller purchase decisions in inventory to meet what is in fact a smaller or perceived to be smaller market; the cost of goods.

It has always been a puzzle to me why, for instance, a product which is manufactured in Japan with exact specifications—Mr Hansen has talked about products with different safety and efficiency specifications—still can be sold in the United States for less money than it is sold in Canada. What is the impact of retail sales tax versus the state and municipal taxes, once again on the input; the impact on employment costs, whether it is for salaries, benefits, whatever.

I think that there is more to this price differential than we have seen in the studies that have been done, and I think it would be useful to look at those things. When you are looking at market research that tell us that 84% of the people, in no matter what circumstances, are satisfied, they are going there for the bargain, period, then some of the other matters are less important for us to look at.



by the bargain exists. It may be of great use to us in terms of coming to terms with some changes that we may want to recommend or to say this is the way it is.

When I was a kid, I can remember people from my farm community going to Buffalo—oh, gosh, not all the time, but there would be a little trip where the car was organized and the people in the community would go down to buy linen, the cotton goods and so on. That is why they went. Now people are going for very different products. They are still picking up cotton goods, but it is a very different kind of a product where there is a substantial price advantage. So I think we should look at some of these other input costs.

**The Chair:** Thank you. I think those are good questions.

**Mr Jamison:** I still believe there is a perception that has been created through various means out there in the public's eye that really overstates the case for cross-border shopping. Yet it is a reality in the public's eye. There are certain key factors out there, and we talked about them all here today: gasoline prices, prices of alcohol and tobacco products and so forth.

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There is also another kicker there. People understand that we are supposedly into a free trade agreement. I think Monte Kwinter has really outlined very well that there is a tremendous amount of difference in what was there before and what is there now. Again, we are dealing with, I believe, a perception in people's minds that things have changed dramatically in the last two or three years. They really have not, and I guess part of that promotional state of mind, as far as promoting that in people's own minds, has to do with that thing we called the free trade deal, which really did not change a lot. Eighty per cent of the commodities traded freely, and so forth.

Again, this is something that is not new, because I know that it is just a matter that people seemed to have picked up on this in a tremendous way, and especially, I think, the GST has had an effect. If you were to look at this particular ad, for example, it says, "Beat the recession and the GST." When advertisers are advertising that fact, people say, "Yes. Darn right. It is 7% more in the tax it costs me to purchase anything. That is 7% more of a reason to go."

**The Chair:** They should be paying that at the border, though.

**Mr Hansen:** Well again, it tends to speak too about that kind of job is being done at the border in assessing the type of goods that are coming in. All those questions are very difficult, we understand, and that is why the committee is here. But we are dealing, I think, as much as anything with that enhanced perception in people's minds that things are now more different than they ever were, and I do not believe they are.

**Mr Phillips:** Just a quick point. Mr Hansen has his finger on a challenge, I think, for us and that is: What is a cross-border town? I think the Solicitor General said today that he was going to allow or encourage, or whatever it is, cross-border towns to open on Sundays and close everything else. That will be one of our challenges. Is Lincoln a cross-border town? That is why I sort of half kiddingly

said we will be able to tell which ones are open on Sunday; it is where the cross border is. So I think that will be one of this committee's challenges as we get into the discussion.

**Mr Jamison:** I do not know if he spelled that out as his intention. He said he would look at that particular situation. I do not think he has indicated that he has made a final decision on that.

**Mr Phillips:** I may have misread it today.

**Mr Hansen:** Commenting on that, I think it was about two months ago when we had a short discussion here before I left, on what is a border community. Before, St Catharines was not a border community or Welland was not a border community or Port Colborne was not a border community, but I read in the paper that it is now a border community, and that is why the constituents in my riding are saying, "What about Fonthill and Beamsville and Grimsby and Smithville?"

**An hon member:** Where is the line?

**Mr Hansen:** Yes. What has happened, though, is a lot of these small communities are hurting, because what you had for a period of time was the large malls opened in the larger centres in the Niagara area, which drew business away from the rural community, so the small store closed down. But now you are having the mall close down and a lot of stores closing, and it has had even more of an effect on rural Ontario, especially in the Niagara Peninsula. The services are not there any more. The garages closed up, and you drive to town and the garage is closed on Sunday and Saturday night at 6 o'clock. So what we have done is eliminated a lot of the service in rural Niagara.

**Mr Sterling:** I have a supplementary point I would like to make. One of the studies we have looked at today was Thunder Bay, which is 200 miles from the border. If we take everything which is 200 miles from the border in Ontario, we have 95% to 98% of Ontario as border towns, so we are going to have wide open Sunday shopping, I guess, in this province.

**Mr Phillips:** Well, not in Moosonee. Where is Moosonee?

**Mr Sterling:** No, no. They would be safe.

**Mr Sutherland:** Maybe it is just me, and I just must be a naïve individual but—

**The Chair:** But you are young.

**Mr Sutherland:** Maybe that is it. But it would seem that those people who are receiving most of the benefits from Ontario society and from Canadian society and those people who receive benefits of our occupational health standards or the fact that they do not have to pay directly for health care and that; that those people would somehow develop some sense of the values that make us Canadian and should be willing to spend their money here in this province. We talked about values and we got the constitutional debate going on and yet it would seem that in some ways people are not willing to pay the price—the collective price, not individually—of being Canadian and being Ontarian. In some ways that seems very discouraging. But I guess it is just me. I am just naïve enough to believe that

people would still be willing to spend their money here and pay that extra price to be in Ontario.

**The Chair:** Way to go.

**Mr Phillips:** I never shop at sales and stuff like that.

**Mr Kwinter:** I just want to respond to that. Where you have the problem is that a lot of Canadians and a lot of Ontarians feel they are paying the price for this through their taxes, and now what they are trying to do is mitigate that by going out and getting something back, which is the

problem. And to say to them, "You are paying taxes," then on top of that, "Restrain yourself from saving so much money by going somewhere to buy it cheaper," is a tough thing. Idealistically, it is a great thing to talk about, but good luck if you think you can sell it.

**The Chair:** Okay, this committee is adjourned until 3:30 this afternoon.

The committee recessed at 1158.



## AFTERNOON SITTING

The committee resumed at 1538

## CROSS-BORDER SHOPPING

**The Chair:** I see a quorum. I think it is time to begin the afternoon session. This afternoon we have the Ministry of Industry, Trade and Technology: Peter Friedman, director of Small Business Ontario; George More, manager, small business development; and Rena Blatt, small business research adviser. This is a very important topic, as we found out this afternoon in the House, so if you can help us out, we would certainly appreciate what you have to say.

**Mr Friedman:** Thank you very much for inviting us.

**Mr Kwinter:** On a point of order, Mr Chairman: Can we have the same procedure as we had this morning, that we want to question we can do it as we go along, or do you want to wait until the end?

**The Chair:** I think if the questions are short and responses are short, we can do it that way. If the questions get a little long and the answers start getting a little long, then we may not get through the document they have prepared for us.

**Mr Kwinter:** I have no guarantee on the answers, but can give you the assurance on the questions.

**The Chair:** All right.

**Mr Friedman:** For those of you who are not familiar with Small Business Ontario, we are a branch of the Ministry of Industry, Trade and Technology responsible for the province's advisory services to new small businesses across Ontario, to arrange financing programs for new and existing small business, for programs relating to growth in technology areas and support of entrepreneurship education in the schooling system. We are also involved in advising the minister on small business issues in the province.

We have prepared the brief you have in front of you to reflect our understanding as a government group involved in small business on a daily basis of the cross-border phenomenon.

I think it is interesting for us to mention to you that the reason we are involved in this particular issue is that it is that one of the important elements of this problem or phenomenon involves the small business owners in the border communities and the effects this is having on them.

The brief we have outlines our involvement to date and one of the responses to the issue we have seen from other governments and from the Canadian business community. I will not read it to you but I would like to highlight some of the points from it.

As you are all aware, this cross-border shopping phenomenon has been with us in Ontario and in Canada for many years. It has been going back and forth, dependent to a great extent on the value of the dollar and so on.

It got into high gear in 1989 when the value of the Canadian dollar went to around 87 cents and when the free trade agreement was passed, which in fact made consumers believe that the border disappeared, and in fact they are able to more easily cross the border.

Our particular involvement in the issue on small business in Ontario dates to the fall of 1989 when a study was done in Thunder Bay that highlighted the problems that were brought to our attention then. In particular, this northern community was suffering significantly from this issue.

**Mr Kwinter:** Mr Chairman, the reason I asked my first question is that the first line I read on the page raises a problem for me, and now that Peter has talked about Thunder Bay he has given me the opportunity to talk about it.

I am concerned, and we have expressed a concern this morning. Thunder Bay, I think, is 200 miles from any border, and yet it is considered a border community. Toronto is 100 miles from the border. People go to Buffalo every weekend. They have buses and everything else. My concern is that you have identified 10 border communities when, in fact, any community within 200 miles, which means most of the communities in Ontario, are really impacted or could be impacted by this cross-border phenomenon.

I was just wondering why would you selectively pick Thunder Bay as a border community, when it is nowhere near the border, and not include Hamilton or anywhere in the Golden Horseshoe or anywhere that is close to the border, within 100 or 200 miles.

**Mr Friedman:** It guess it is not so much that we have selected Thunder Bay as the community at the border. It is they have selected themselves as a community that is being highly affected by this phenomenon. We did not select these communities; these communities came to us and said, "We believe this problem is affecting our community and our situation." Toronto I am sure is affected; I suppose Hamilton and others as well. But they do not see it as clearly, whereas these communities I think see it more clearly. So my answer to you is, we did not go to Thunder Bay; it came to us. I am using Thunder Bay only as an example. They happen to be the first people who noticed this phenomenon happening. That is the only answer I can give you, basically, on the question.

Once we recognized the problem we met with a number of communities, the first one being Thunder Bay. Once it became known, then the various other communities came to us. Sarnia, Windsor, Kingston, Cornwall, the Niagara region began talking with us on this phenomenon.

I think it is important to realize that the problem seems to be accelerating at staggering rates. It is very difficult to keep a tab on how fast it is happening. One measure we have seen is that there was a 60% increase this year over last year in terms of the number of people paying duty at the border, coming across in cars paying duty.

There are a number of other measurements, and I do not want to tell you that we have all the measurements. We do not have all the measurements to put this phenomenon in precise terms exactly, because it is changing rapidly. You are all aware that in the last couple of weeks in the Buffalo and the Niagara region borders there are two-, three-, four-hour lineups. So the problem and the situation is growing at staggering rates. Why? We have some answers to the why.



The next set of answers, I guess, from our standpoint came from a survey that was done in Sault Ste Marie, again at the request of the town of Sault Ste Marie, done by Ernst and Young in the fall of 1990. They asked a number of consumers in Sault Ste Marie: Why are you going across the border to purchase? The answers those consumers gave are price, selection, service and friendly people. By far the largest factor in this is price.

The next piece that came out of the study is, how much? At that time, what is the ballpark of this phenomenon, at least in Sault Ste Marie? The study indicated that it was in the \$100-million ballpark for the Sault Ste Marie trading area. That is how much money was going out.

The third piece of information that came out of that study was what kind of products people were buying. The study indicated the main products were gasoline, groceries, clothing and alcohol. Those are the main products that were being purchased by the people who were interviewed in the Sault Ste Marie study. Along with that, the point was made, and has been made to us in most of the communities, that gasoline seems to be the trigger mechanism that makes people go across the border. Whether this in fact is exactly precise we do not know. It has certainly been made: the consumers are saying it and many people from various other communities where we have not had studies done are also saying that gasoline seems to be the trigger point.

At this point I would like to mention that our perception is that cross-border shopping is a symptom of our competition problem. There exists in Ontario, Canada, a complex series of problems that are reflected in some major price differences between Canada and the United States. These differences are in our distribution systems, our costs of real estate, wages, social costs, the value of the Canadian dollar, interest rates, and so on. These are a complex series of interwoven factors that at this point, as far as I know, no one has been able to totally analyse. The federal government has a study going on right now, which it will unveil on 22 April, that will try to get a little better understanding of these pieces of the puzzle that relate to the price differences.

However, beyond the price differences, over and over again we are hearing that there are other factors that are important in this particular phenomenon. These, as I said in regard to the Sault Ste Marie survey, are selection, innovative marketing techniques, customer service, the shopping environment and convenience. As you see in the outline, some of these are unfortunately perceived to be better in the United States. I want to use that point, perceived versus real, because I would like to get back to some of the marketing efforts we are doing in the communities to emphasize that it is not necessarily true, but it is definitely perceived as being true.

Our strategy in Small Business Ontario, where we have been a catalyst in this, has been to get the various players to address the various pieces of the problem. We have talked with the federal government people and suggested that interest rates, value of the dollar, customs and excise, gas tax and GST enforcement are important issues in this particular phenomenon that they should be looking at. I

know they are aware of it. They are doing studies on various aspects of this phenomenon. I cannot tell frankly, whether very shortly you will see moves on area. I know they are aware of all these factors in terms of the problem.

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We in small business Ontario have been concentrating on forming community working groups in each of the seven communities that have come to us and said a particular community is being affected by this phenomenon. There are at present in place in the seven communities working groups involving most parts of the community and we have worked with them and formed a border communities task force on cross-border shopping. So we are meeting with all the community task forces on a regular basis and trying to work with them on what they are doing in their communities to deal with this problem.

The task force determined that there is a requirement to do a marketing strategy for the communities, so we undertook to finance a community marketing framework study which we developed, completed in October of 1990, and submitted to all seven communities. It is a fairly in-depth study of what can be done or should be done by the communities and local retailers and local components of the community to deal with mostly the non-price issues involved in this particular phenomenon. The communities have embraced this framework fairly well and we have also assisted three communities across Ontario to implement this particular framework, that is, in Cornwall, Niagara and Sault Ste Marie. We have assisted them financially helping them implement the various suggestions and recommendations outlined in the study.

The task force also identified gasoline prices and harmonization of GST and PST as issues it wanted to talk to the Ontario government about. As you are aware, we made a presentation to this committee a month ago or a few weeks ago, in essence bringing their points of view on those two important issues forward to the committee.

We have continued meeting regularly with these forces and with this overall task force to help them implement the community programs. It is also important to know that various other players are getting involved in this particular phenomenon. The Retail Council of Canada has begun doing some work and has some studies going on, because retailers are one of the main players affected in the border communities by this phenomenon. So they are working and getting some studies from their standpoint in terms of what they see as potential problems or improvements they would like to see. The chambers of commerce, the Canadian Chamber of Commerce and the Ontario Chamber of Commerce, have brought forward suggestions from their standpoint. The Canadian Federation of Independent Business has also done some work on this particular issue and has presented a brief and a study to the Ontario government. The Canadian Council of Grocery Distributors is also doing some work. The downtown business improvement areas are working on this issue, shoe retailers. And recently, I understand, there has been a mayors' committee formed from the seven so-called border



mmunities, which is looking into some of the aspects of this phenomenon.

Through the year or so that we and others have looked at this, some innovative suggestions have been brought forward, not necessarily, frankly, to solve the problem, because I do not believe there is any one easy solution. But, for instance, in Trail, BC, the local merchants and the local banks developed an innovative concept where the banks would loan local residents \$1,000 at no interest and the residents would use it to purchase products from the local merchants. My understanding is that that worked extremely well. It was particularly highlighted for the past Christmas season and it had quite a significant good effect. I should tell you that Trail in British Columbia has a bigger problem per capita than we are having here in Ontario, so it is a serious problem in British Columbia as well as here.

So Kingston and Sarnia are looking at this kind of mechanism to see if they could, as a group, bring this kind of initiative into their own communities. Quebec, a few months ago, implemented a gasoline tax reduction scheme at their border points, which included Ontario and New Brunswick. They have pricing zones where at certain distances from the borders the prices are lower. We are trying to get exact information on how effective that has been. To date we have not been able to get extremely good data. We are trying to get that information from Quebec. Other provinces have projects on the go. New Brunswick, which is also being hit very hard, has some interesting, innovative projects again, dealing with other items, not necessarily the same one, which is the price promo.

Our own local communities are making headway with their marketing concepts. They have quite active programs in Cornwall, Sault Ste Marie, Niagara and I believe are beginning to make some headway in this arena, although I cannot tell you that the problem is disappearing by any stretch.

In summary, I would like to conclude by reiterating that this is a highly complex problem for which there is no single easy solution, in our opinion. We are making some headway in some of the areas that relate to the non-pricing issue and continue to work with the communities, trying to get a better understanding of the fundamental aspects of the pricing problems. I will be happy to answer any questions.

**Mr Stockwell:** Any problems with people in American cars crossing over to shop Canadian? Do you know of any problems where American citizens are crossing the border to shop in Canada at any serious number?

**Mr Friedman:** Our understanding is that that has diminished some. There is definitely still going on—

**Mr Stockwell:** But not like it used to.

**Mr Friedman:** Not like it used to, no. In Fort Erie, for instance, there is still some of that going on. It certainly has not disappeared. There are certain items that are not as expensive in Canada, in fact that are cheaper; higher quality merchandise, brand names, in fact are not more expensive. So people are coming over, for instance, I understand, to buy higher quality suits, shoes and so on.

**Mr Stockwell:** Not any huge number or disproportionately higher than it used to be or anything along those lines?

**Mr Friedman:** Definitely not higher than it used to be.

**Mr Stockwell:** The question that seems to keep popping up, and I can see it as an obvious problem, is price. Are we looking for a complicated answer when a very simple one stares us right in the face? Being a retailer, I know, quite frankly, if you are selling the same piece of merchandise next door to an individual who is selling the same piece of merchandise, if your price is lower you will sell more than he will. I see the report says 82% feel the US has better prices, which seems to be very significant to me. How much further do we have to look and would we be better off looking at figuring out why it is cheaper and what we have to do to reduce the cost?

**Mr Friedman:** I would like to go back to the statement I made that sometimes it is not an actual versus a perceived cost.

**Mr Stockwell:** Well, gas is actual.

**Mr Friedman:** Gas is actual, yes, but groceries overall can be perceived. For instance, there was a study done where a Niagara supermarket compared a basket, the average basket of groceries with an American supermarket and, taking into account exchanges, the prices came out to be even. What is happening is that consumers, as they should be, are becoming very price conscious, and certain products are very much cheaper. Milk, for instance, as far as the groceries go, happens to be an item that is cheaper in the United States. Some other items are not. But when you go in to buy milk and you are in the supermarket, you have a tendency to buy other things as well.

So what we are trying to do in our consumer marketing in our communities is highlight that not everything is cheaper, that certain items are not and that you should not have this idea that everything is cheaper. Now, as far as analysing the price elements—as I mentioned, the federal government is now doing that. We are waiting until the middle of April to get a better understanding of the elements of the pricing structure, where then we will be able to see if there is anything we can do. We know the distribution mechanism. For instance, sharp retailers are now turning to use American distribution mechanisms to buy their materials, which are making them more competitive.

There is an element here that I talked about a bit. One of the elements that we need to work on—this is where the marketing element comes in—is that our retailers are having to become more competitive in their purchasing, in their avenues, and they are now beginning to do that, and also in their methods of merchandising and in their methods of selling.

**Mr Stockwell:** What about taxes?

**Mr Friedman:** Taxes definitely play a role, but I think it is—

**Mr Stockwell:** We had a report in the finance committee saying specifically that state tax on gas, compared to provincial tax on gas, was the sole discrepancy between the gas prices. That seemed pretty clear to me. Have you



done any studies to indicate whether our taxes are simply higher than the bordering state?

**Mr Friedman:** Gas is, for sure.

**Mr Stockwell:** Gas, okay. Sin taxes we will agree with, but others?

**Mr Friedman:** The others are somewhat higher, but they are not the only, or even the main contributor to the price differences. Real estate costs, interestingly enough, are a very big contributor. Distribution mechanisms are a big contributor. When people begin to use the American distribution system to purchase their materials, they are able to compete.

**Mr Stockwell:** Last question is: You have suggested the hook is the gas prices. That hooks a lot of people down there and then they continue on from there. If we did in fact reduce our gas prices, and I guess the sin taxes would be the ones like liquor, cigarettes and so on, which I imagine would be a bit of a hook as well, as stated earlier today—what if we got a little more competitive in those? Would you see that as resolving some part of the problem?

**Mr Friedman:** The communities are telling us yes. The communities are telling us that if we can equalize the gas pricing to some level—it does not even have to be exactly equal, but so that the differences are close—that would eliminate a fair amount of the day shopping. Mr Kwinter talked about the Toronto people going to Buffalo, Detroit, wherever. I do not believe it would eliminate those problems. People who go for the weekend from Toronto are not going only because the gas prices are lower. They are going because there are social elements and there are other things they wish to purchase. But the border community people, the day trippers, I believe the message we are getting from the local people is that that would in fact be reduced significantly.

**Mr Stockwell:** And those are those people who will be shopping back in the communities?

**Mr Friedman:** Yes.

**Mr Stockwell:** Exactly those people they need to get back. They are not worried about the Torontonians. They are worried more about—thank you.

**Mr Kwinter:** I just want to follow up with what Mr Stockwell was saying. I am old enough to remember when, as a teenager, a lot of Torontonians went to Buffalo for the weekend. They went there for very valid reasons. You could go to the movies on Sunday, which was totally unheard of in Ontario. It was something you never even thought you would ever be able to do. They had the opportunity to buy products that were advertised extensively on television that were not available in Canada. They had the opportunity to buy products that were cheaper and they had the opportunity to do things like go to nightclubs and see name entertainers, things of that kind. It was quite common for people who wanted to make a major purchase to go to Buffalo for the weekend. That was something that you would talk to everybody and say, "I'm going to Buffalo to do that."

Then of course, Toronto and the Golden Horseshoe started to expand. We have Toronto, which is a major

metropolitan area, and Buffalo went into a real decline as a matter of fact, Buffalo was the butt of jokes. People talked about Buffalo being the armpit of America. Nobody went to Buffalo. There was no reason to go to Buffalo; as a matter of fact, northern New Yorkers were coming to southern Ontario. It was very common. They used to come to Toronto and they loved it because of all the things we had and because they could then get their entertainment. If they could buy quality goods, they could get the quality of life that we enjoyed. They could share in it for the weekend.

In the last five or six years, the pendulum has swung and now it is going back the other way. It seems to me that the key is strictly price. Even though these things are important and people may have these perceptions, I do not think someone is going to go to Buffalo because they think the service is a little bit better in a restaurant. That is not a motivation. That is a plus. It is a benefit if they can perceive that, but I cannot see someone travelling all the way there when that is the only advantage. So it seems to me that the advantage has got to be strictly price.

And when you talk about your task force or your recommendations and you say, "We don't really address the costs or the pricing; we are talking about the marketing," I think you have to be a pretty good marketer to convince somebody, "You should be paying twice the price for goods in line in Ontario that you are paying in New York because of all the great benefits that are going to accrue to everybody and we are going to show you that this is something that cannot hurt, but I really do not think it is going to help."

I do not think you are going to really convince people so that they will not pursue their economic interests. They can save money, particularly when times are tight, particularly when people are being laid off, where they have to make their dollar extend as far as it can, they are going to be enticed—which is really the word—by all the activity that the merchants in northern New York are doing, seminating to the people in southern Ontario to attract them there. I mean, they think they have literally died and gone to heaven, because suddenly here is this bonanza. Here are these people coming over, lining up to get their cars filled up their cars with merchandise and then going back to Ontario.

To suggest that we have to do a better public relations job—as I say, I do not think it hurts, but I cannot see how it is going to really change it unless we get to the basic problem, and that is our competitiveness. It is not a price problem. When you go into the States, there is merchandise there that just are not available here, there is innovative marketing, there are all sorts of things. I love to go into hardware stores and things in the United States and see some of the products they have that you just cannot find in Canada. They are inexpensive, but more important, they are really innovative. There are really interesting things that you just do not seem to see here, and the reasons for it are many-fold. One, we have a very small market, and many cases it does not pay for a manufacturer to ship to Canada or Ontario because there is not a large enough market for them.

These are the problems we have to address. As I say, I do not in any way deny that public relations and a marketing



to try to extol the virtues or the benefits of doing things in Ontario are important, but I still think it gets to the bottom line. You can do all the marketing you want, but if a guy says—and I was talking to Mr Sterling.

Why fill up my car in Ontario? It usually takes, if it is fully empty, about \$40, give or take \$3 or \$4. It is about \$10 to fill up my car. I was in Florida two weeks ago. I have a large car and it was down low and I went into a service station and I filled it up. It does not matter whether you are talking imperial gallons, US gallons, litres, the change on the dollar, you could fill up your car for \$16. You can compute it any way you want, with exchange and everything else. All I know is there is a gas tank that has the same capacity and it cost me \$16 to fill it up there and \$10 to fill it up in Canada.

That is the issue. It is an issue where when you go across the border you do not have to worry about it. They are not going to come with a dip stick and say, "How much gas have you got in your car?" You go in and you fill it up and you come back and you can do that every single day whenever you need the gas. That is the main thrust why people do it. There is an incredible saving, if it is not too convenient to do.

There are other things like that where it is the economic drive that is attracting those people there because, things being equal, and I am not trying to be a hometown supporter, I think you cannot compare the amenities, quality of life, the entertainment packages that we have in Toronto vis-à-vis Buffalo. So it cannot be that. It cannot be that people are saying, "Wow, Buffalo is just fabulous, I know; we're going to go down and watch some fires" or something. It is just not going to happen. It has to be a situation where it makes sense to go to Buffalo because we are going to save some money.

**Mr Stockwell:** Remember when these questions were being asked to be short?

**Mr Kwinter:** No, no. That was before.

**The Chair:** Compared to what I have heard some of our federal fellow Liberals doing in some of the other committees, this is really quite short yet.

**Mr Kwinter:** Thank you, Mr Chairman.

**The Chair:** There is a question in there somewhere.

**Mr Kwinter:** The question is: Do you not think that it is dollars and cents as opposed to marketing, public relations and projecting the right image?

**Mr Friedman:** I guess it is price on gasoline. I do not think it is price on everything. That is the point I am trying to make. I was trying to make that. We know, you yourselves already said, there is interesting, innovative retailing in the United States that is catching the attention of people, which we have only started to do here. Factory outlets are a very big phenomenon around the border areas where we are going. People go to those places because there is a shop-till-you-drop concept of shopping—

**Mr Kwinter:** Yes, but the bottom line is price. If you have Gucci in there, and you could have all the fancy things you want, people will go and look but they will not

buy. The bottom line is, there has to be an economic reason why they are going to shop. They are not going to just shop because it is there.

**Mr Friedman:** Let me complete my answer. For instance, let me give you an example. Sporting Life in Toronto, an innovative retailing operation, is not a low-price operation. You go to Sporting Life on Saturday and the place is mobbed. What I am saying to you is that when we begin doing innovative marketing with a combination of discounting, which is what the Americans are doing, with the concept of selection, which you yourself mentioned is important in going shopping, along with using the distribution mechanisms that the Americans are using so our retailers can buy the products that their American competitors are buying, I think we will be able to counter on some products.

I cannot argue with you that on certain products, commodity products like gasoline, like milk and other things, you cannot dress it up. There is only so much you can do. But I do not believe that that is the sum total of the situation. Our big worry is not so much on the milk and on the gas, a big volume item, and there is a difficult arena in dealing with price, but we are more concerned about higher-value goods: consumer electronics, household wood products, large appliances, which are being advertised by Americans in our arenas. We think we can fight against that concept by becoming innovative and by doing things differently.

So my answer to you is that on certain products I cannot argue. How are you going to argue on commodity pricing on certain products? But I do not believe it is as simple as price only. We are trying to get our retailers and our communities to fight some of the elements now and deal with the prices by the distribution and other elements to try to reduce the prices as much as possible so they can compete with their American counterparts.

**Mr Phillips:** I have four quick questions. I will give you all four of them but I would like your thought on this. A very ominous thing is that I think part of the solution, which you have kind of articulated because you are working with retailers, is better sourcing of stuff to sell. You have used the term "the same distribution network as the US." To me, that says buying more in the US.

One of the things that in my judgement is going to happen very quickly because of the US border shopping is that retailers across Ontario, in order to survive, are going to increasingly look to sourcing their stuff out of the US. I think you are looking at that as a solution, but as I say, I think it is because you are heavily represented by retailers, and it will only be a period of time, I think, before the manufacturers will be to this committee saying, "The solution you are proposing is going to dramatically impact on us." I believe that strongly.

Let me give you my four questions: If that is the solution you used, I am interested in whether you see any downside to it.

The second thing: I would not mind you just telling me what might be in the price study, because I like to deal with the facts, and when the federal government comes out with its study, what will be in that to help us determine fact

from fiction? It should be very easy, by the way, to determine all that stuff, I would think.

The third point I have is that I think many of us think the Canadian dollar is going to drop versus the US—80 cents or something like that—over time. But the other thing that is ticking away is the reduction of the tariffs, and to the extent that we are seeing this cross-border phenomenon now, with some tariffs still in place, I am wondering if we may not see the tariffs reducing the price of US goods almost as quickly as any forecast of the drop in the Canadian dollar? Can you help me on that? I just do not understand the terms well enough.

My fourth question is the one that was said earlier and that is: Do we have any evidence of what is a cross-border? I know that you have determined it on the basis of who came to you. But are there any facts about what are the cross-border cities or towns in Ontario in terms of surveys at the border of where you come from? I think it was Mr Hansen this morning who said that it looks like the border of cross-border is moving further from the border. It is going to be fairly important for us to determine what is a cross-border city and what is not.

Those are my four questions.

**Mr Friedman:** The answer to your first question: I think you are right. I guess our strategy is a short-term, long-term strategy. We are trying to combat the phenomenon in a relatively short term, while in the long-term our manufacturing competitiveness comes into line.

I guess our view is that we are trying to change a consumer habit and we are trying to do that by any realistic short-term means possible, while the longer term competitiveness issue has to be dealt with. I do not argue with the fact that eventually our Canadian companies, our Ontario companies, will have to be competitive with their American and European and Japanese competitors, but I think that is a longer term situation.

We are trying to dampen this cross-border shopper-consumer phenomenon in the short term as much as we can and then hope that the long-term situation will right itself, which I believe it will. I am confident that in the long term our manufacturers are going to be able to compete. They will have to. In the end, we will. It will take a while to do that because we are right now, I believe, in the transition period.

**Mr Phillips:** Can I just complete the thought just so I make sure? The short term can compete by sourcing more of their goods from the US?

**Mr Friedman:** The US or wherever the products come from. It does not have to be from the US.

**Mr Phillips:** But outside of Ontario.

**Mr Friedman:** Many of the products come from outside: Europe, Japan, etc. They come from different sources, basically.

**Mr Phillips:** But sourcing outside of Ontario, increasing—

**Mr Friedman:** Well, wherever the cheapest or most effective mechanism is. I am sorry, I have forgotten all the questions.

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**The Chair:** Can I just have a point of clarification on a matter? Are you saying that if a Sony that is made in Japan can be put into a Canadian retail store more cheaply by using an American distributor, that is what we will do?

**Mr Friedman:** We will not have to do it; the retailer is going to have to do it if he is going to stay in business.

**The Chair:** Okay, so that is what you are talking about when you are talking—

**Mr Friedman:** Yes, that is what I am talking about the distribution mechanisms. In the short term, that is one of the ways that our retailers will be able to compete.

**Mr Phillips:** The other three questions were: the study, what will it include? Will the tariff reductions create any benefits we get from the reduction if the Canadian dollar is reduced, and where does MITT feel the cross-border might be?

**Mr Friedman:** In terms of the study, it is trying to deal with the various aspects, all aspects of pricing, and we will be happy to provide you on 22 April with a copy of that, but it takes down the retail costs and the whole thing, costs and the various elements of the thing as much as possible.

**Mr Phillips:** Would that show a Heinz ketchup in Buffalo—

**Ms Blatt:** It is not going to deal with food, because the Department of Agriculture is doing a separate study on food items, which will be coming out late April, early May. This study is being done by the Department of Industry, Science and Technology, and they picked three areas to look at: women's sportswear, personal electronics and household linen. They picked those as items that come across customs forms very often. So that is how they made their decision. What they are going to do is pick items in each of those categories that are manufactured either in Canada and the United States or that are imported and then look at them from the point at which they leave either the import point or the manufacturing point to see what happens to them as they go through to the consumer.

**Mr Phillips:** So maybe 300 items or something that we can compare of Canada and the United States.

**Ms Blatt:** I do not think there are going to be 300 items. I think they are going to look at something like 100 items. We did not have any input into this. They sat down and decided this is what they were going to do, but it is a very complicated thing to do, because they have to look at different mechanisms of distribution and different mechanisms of sale, because you cannot compare women's shoes from a factory mall and from Holt Renfrew. You have to find comparable kinds of retail outlets as well and comparable systems along the way.

**Mr Friedman:** As far as the tariffs are concerned, most of the tariffs are fairly low in the areas we are talking about, so I do not believe the tariffs will be a major factor in this phenomenon.

**Mr Phillips:** When you say low, just give me a hi



**Mr Friedman:** I think most of them are 5% or less, so I do not think the tariff is going to be a big factor.

**Mr Phillips:** That is why we are looking at reduction of the dollar, though, about a 5% or 6% reduction in the dollar.

**Mr Friedman:** Yes. I guess I can only tell you that I do not believe that tariffs—the dollar, I think, will have an interesting effect, although in some areas not as large as others. For instance, the gasoline pricing is a particular example: It is not going to be a particularly important factor. In some areas where the pricing is reasonably close, I think it will be a factor.

As for the distance from the border, that is an area we are just beginning to study. We cannot tell you. We only know about the seven specific border points. How far and what per cent the phenomenon is reaching beyond St. Catharines and the Hamilton-Dundas and the Niagara area and others, we are just beginning to take a look at. So I do not have a good answer to tell you.

**Mr Phillips:** When will you have an answer on that?

**Mr Friedman:** Probably in three or four months.

**Mrs Sullivan:** There are a couple of things that are new observations in the beginning. The issue has been identified by retailers as being a problem in a recessionary period as well, which may be a factor in some of the difficulties here, and I do not think we have talked about that very much. We have talked about the impact on the retailers themselves, the fear of going out of business. We have talked, to a certain extent, of the economic impact on the community. But we have not at all talked about the social impact on the community, and I would like to come back to that, because I think it is quite significant in some of our towns.

When you talk about the distances that are affected, the merchants in my town and in the towns I represent tell me that this is a factor, that is, Oakville, Burlington, Milton. That is some distance moved in. Mississauga people tell me that it is affecting their retail operations as well. It seems to me that where people used to shop for specialized merchandise and were prepared to travel distances for that merchandise, say, going out antiquing for an afternoon or to a model train store, whatever, you would be willing to travel, say, from my community to Oshawa or to North York or wherever as an outing, but within Ontario. Now what I am seeing, even in Ontario shopping, is people willing to travel distances, say, to go to a price club—which is an American concept and in fact ownership—to go to Cambridge for the specialized prices on men's shoes, to go to Acton for the leather and so on. And people know precisely where those places are located, where you can get the bargains and are willing to travel the distance to do so, even within our own borders.

When the travelling decisions are made, I think, to go to American outlets, they are made for the same reasons. The fact is that there are bargains, and people are finding bargains. You are suggesting that maybe pricing is not the reason. In my community, people make return visits because they find there is an advantage—and they have done all the analysis, I will tell you—just for the same

reasons that they go back to the price club to buy their groceries instead of going to the local greengrocer or the local Loblaws which is down the street.

In Quebec, the tax reduction in terms of the distance affects a very different community than it affects in Ontario. If you look at where the gas tax reduction is, it is basically through the eastern townships into a distance that is substantially away from the border towns where people are doing their shopping. Their analysis says that people in fact are moving far greater distances to go into the American towns for shopping than in fact we have identified so far in Ontario, and I would just like you to comment on that.

I am interested in your comments about innovative marketing, because the innovative marketing ideas so far that appear to be to have been looked at tend to the factory outlet, the loaded-down operation and so on. I will tell you, the downtowns of our communities are going to be extraordinarily and negatively affected if that is the major kind of retailing operation that will suck the breath out of the downtown retailers. That is an economic factor that somehow has to be built into these discussions. Oakville is already suffering, for example; Burlington already suffering. We could go into the Oshawas and Whitbys. They have already identified a problem, and the cross-border shopping, the retailers there feel, is simply adding to it. I think the business improvement areas have probably identified that as a factor. The historical societies in fact are identifying it as well, because they are seeing downtowns destroyed because of the kind of retailing that tends to occur in the older downtowns. I do not know if you have factored that in. I guess it is something else I wanted to throw in, relating to, once again, the distances that are affected and the various kinds of effects on communities that are involved in this problem. I guess that is it.

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**Mr Friedman:** Let me begin with your first comment, which talks about the recession. I think that is a very interesting point. When we first started looking at this phenomenon, there was not a recession, or at least people did not perceive there to be a recession. An interesting factor was that in many of the border communities that we have identified most people were not working on the problem because, in fact, retail sales in most of the communities were still up 5%, 8%, because consumer spending in the fall of 1989 was very good. So they knew the phenomenon was happening, but no one was doing anything.

Thunder Bay happened to be an unusual community, which was affected by it or interested and so on, but in most of the other communities we visited and talked with there was not a great panic about this issue in the fall of 1989, not by the retailers, not by the municipal politicians, not by most of the economic development people in those communities.

The panic, or at least the attention, if you want to call it that, started to develop as 1989 came and as the recession began to take hold and consumer spending began to dry up. Then people began to say, "Holy smokes, there are serious problems here." Cross-border shopping is one of the things we could put our hands on to say, "Look, this is



something that is hurting." To be honest with you, there are more things hurting than cross-border shopping.

We already talked about the lack of innovative moves by many of our retailers. Some of the problems are that our downtown merchants have not been upgrading, updating. So it is a complex problem. It is easy to put your hand on cross-border shopping because it is visible. But the reality is that change is what we are talking about. Unfortunately many of our business people were not keeping up with change as quickly as they might have.

Now we are using the cross-border shopping issue as a way of focusing the people to take a look at this rapid change. It is not only factory outlets. Factory outlets are the way the Americans started to do it a few years ago. We would like to look at the next wave—we should be looking not at the factory outlet wave—but what is the next wave that is coming in retail shopping, and let's get on to that before the Americans get on to that.

So that is really what we should be looking for, to be innovative and looking for what is coming down the pike next year and the year after, not only copying the Americans or the other people. And the other people are even ahead of the Americans in retail in many parts of the world.

I guess what we are saying is that the important elements are to be innovative, to keep ahead of the change, to understand what consumers want: price, convenience, quality, all those things; value, really. When we are able to do that, whether it be in the downtown cores or in the outlying cores, that will remain to be seen, I guess, and what are the new kinds of things one wants to do.

The other important point, I think, which I did not talk about when Mr Phillips talked about the manufacturing, is that it really is not only a retailing phenomenon in the concept. It is really an integrated mechanism, where the retailers have to work with distributors, with the manufacturers. The whole concept has to be innovative. Another example I could use is IKEA. IKEA is an innovative retailing concept because it is an innovative manufacturing concept.

It is those kinds of mechanisms we have to work towards to keep ahead of the game and be able to compete with our American cousins and anyone else. I do not know whether that answers your questions or not.

**Mrs Sullivan:** When you talk about moving away from the factory concept—I was very interested in looking at the Sealy operation that went under at Steeles and 427. That company went under. It was bought out in a liquidation by another operation. Within two weeks of that company closing down—and it had been selling its merchandise basically through the large department stores—it was doing \$1 million worth of business a day, and people were travelling hundreds of miles to make their purchases there. Now, some of that is management, some of it is distribution, but there have to be other factors as well. That is one situation that has occurred here, where the merchandise was not going out to the community; the people were coming in there.

**Mr Friedman:** I think you are right. Again, I go back to convenience, value. That involves delivery, it involves having good stock on hand, it involves a lot of factors that

make consumers happy, and that is what we have been striving for. I guess my own view is that we have the capacity and capability of doing that. It is a matter of being motivated, and I think we are not motivated.

**Mrs Sullivan:** Just to my last point, are you looking at the effect of this phenomenon on the economic viability of the downtowns?

**Mr Friedman:** We are certainly working with that to look at—the downtowns are being devastated in much in those communities. There is no doubt about that. Even Windsor. Certainly Sault Ste Marie is feeling it just because of the cross-border shopping but because of Algoma. The Niagara region certainly is feeling it. Cornwall and Kingston. All of them are feeling it in the downtown core, no doubt.

**Mr B. Ward:** I recognize this is a very complex issue that has a number of factors all playing together one or the other, interacting. I would like to focus on the real estate cost for a moment. I do not know for sure, though, just what I have heard, that land in Buffalo—and a manufacturer used it as an example—is dirt cheap compared to what it is in Ontario and Canada. Recognizing that perhaps there is some economic devastation occurring along our border towns in the core areas in the retail sector, if our land was more expensive in the past, should market forces have some play into the cost? If no one is willing to buy or lease space in Ontario border towns, obviously the cost should be coming down. At present, you think the cost of real estate is playing a role in the price of a product that you can purchase in the United States compared to Ontario?

**Mr Friedman:** I think you make a very good point. However, there are many people in existing shopping malls paying huge prices on long leases. So I think you are right in new facilities or many facilities that are now being developed. I think the prices in fact have come down dramatically, the real estate prices, but they are still higher than they are in the United States.

The interesting part, which we did not really get into very much on this issue, is that prior to 1989, the Americans really were not doing very much to promote this issue. It was happening, but they were not promoting. Since then the Americans have gotten significantly more interested in this, and two things have happened:

One, major shopping malls have been positioned at each border point, so now in Cornwall you will be able to go to a very sophisticated shopping mall just across the border, where prior to that there was nothing; the same with Sarnia, and certainly in the Niagara region they are improving their situations.

Two, they are doing a significant amount of promotion in Canadian newspapers, so they are widening up their perspective and doing significant marketing to the Canadian scene.

These new malls are coming in and they are very large malls, many of them, 800,000 square feet and so on. They are not incidental little malls they are putting in; they are very large. And because of that, they are providing a lot of elements.



In terms of real estate, I think the prices have come down, but where people are on long-term leases it is a blem.

**Mr B. Ward:** They are stuck with them.

**Mr Friedman:** So it is improving, but by no means realized.

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**Mr B. Ward:** I have two other points I would like to focus on. The aspect that these super malls are locating in very close proximity to the border points, does that more or less give you, in your opinion, the fact that some American retailers are no longer focusing on the American consumer and are focusing on the Canadian consumer to a greater degree and, in fact, that is what they are relying on for their business growth?

**Mr Friedman:** Exactly. I think that is certainly true. In many of these situations the Canadian side is bigger than the American side. In Sarnia, in Cornwall, in Sault Ste Marie, the Canadian side is larger than the American side. They definitely have a campaign to get the Canadian market to come, and what I am saying is that is a more recent phenomenon. It certainly happened to some extent prior to 1988-89, but now it is sort of a conscious effort, which is not helping our problem. I think that is certainly contributing to our problem.

**Mr B. Ward:** The third point I would like to get at is that Canada has always been a safe society; we have always played it safe. We invest in Canada savings bonds, in traditional banks, whereas the Americans invest in stocks and bonds, seem to be more risk-takers from a capitalist standpoint than Canadians, traditionally. The fact that Americans seem to be outthrusting us when it comes to retail along border points, innovations—they have already gone through the phase of the discount factory malls, and now we are kind of looking at that as an option, when you think we should be looking to the future. Other than long-term marketing, how do we instill the innovation that is necessary for our retailers to begin to look to the future? I say, "We can compete head to head"? It has to come from inside, I think. We need risk-takers, people who are willing to take a chance, and how do we overcome the fact that we are Canadian?

**Mr Friedman:** That is one of the things that our marketing strategy and community involvement are trying to do. We are trying to get our retailers to begin, or continue, some of them, being innovative. With communities, groups of communities looking at the issue, I think we are beginning to do that. I think some areas will be faster than others, but I think what is happening, and the reason I said that is that necessity is now forcing people to do this. Entrepreneurs are entrepreneurs. They do not like to be out of business and they will become just as aggressive, just as innovative as their American cousins are if they are required to be that way. I think we are beginning to see that in some areas; we are starting to see that phenomenon opening more and more. I think it can be done. It is a matter of how fast, and it certainly will not be across the board simultaneously.

**Mr Hansen:** I guess I do not have to give Mr Kwinter any history lessons. I think he has been there before I have been, but I know in the early 1960s, most young people went to the United States just to grab a beer because the age was 18. That was your shuffling off to Buffalo.

At that time you did not dare bring anything back across the border with you because they would impound your car. There was that fear of coming back, if you were going to smuggle something in, and there was not the openness of saying that you could purchase this and you could purchase that, even right up until 1980. I took a look at the chart in here and my experience coming back from the Buffalo Zoo. One of my children bought a small item at the zoo. It cost \$3. I wound up paying, I think, 78 cents duty on it. So it was a lot different in 1980 from what started in 1987. In 1987 we hear the rumblings of free trade coming up. More people are starting to go over. In 1989 they get the impression that free trade is here, that the consumer can walk over. At the borders now there are so many people they cannot stop me. Look at the lineup. They just push and push and push through. So nobody ever thinks about your car impounded now because there are so many waiting behind. A lot of attitudes have changed. People do not fear that any more.

The other thing I wanted to mention also is the service over there. We talked about service. Buy something in the United States, you know where you take it for service? Back to the United States. You cannot take it to your corner dealer. They cannot honour the warranty here in Canada because it is a different division of a lot of the companies.

The other thing I want to mention—and they are more comments to maybe take back—is that for years our businesses have invested in our communities. The American businesses are not investing in Vineland, Fontheil, the small towns. This is what I brought up earlier. If we are going to have business investing, we have to patronize these businesses in our small communities. I think this is a point to tell people: that these businesses have supported ball teams, supported the hospitals, supported all these different activities that we have in our small communities. If we stop dealing with some of these businesses locally, just because we are talking about a dollar or two, we are going to lose out with what we have in our communities. It is not a question, but it is a point. Listening to all the questions here I think there were quite a few that came out. These are my feelings living in the Niagara area.

We own a business there in Welland and we do have Americans come over to buy our central vacs, which are better quality than what they can buy in the United States: 5% of our business; it is not all of our business. We depend 95% on local people to purchase from us.

**Mr Jamison:** I have two questions for you today. I would like to ask you for your information or background on the one vital area for small business, that of course being interest rates and how a small business carries its debt. I would like a comparison of what it would cost a small business in Buffalo or in any border community to carry the outstanding cost of doing business compared with the cost of a small business borrowing from the bank here in Canada, and what kind of impact that would have



on your ability to compete. That is my first question, and I have a second question after that.

**Mr Friedman:** Certainly the interest rates are an important factor. The interest rates vary between Canadian and American by four or five percentage points. So carrying costs on merchandise definitely are a vital component. It is very difficult for me to tell you what percentage that component is. That will be looked at in the pricing mechanism that we are looking at. But it certainly is an important factor, no doubt, because it involves more than just the working capital that you need to operate, it involves other kinds of capital costs that you have to borrow money for. So it is certainly an important factor, no doubt.

**Mr Jamison:** Okay. You do not have any real information about the actual cost, but what you are saying is that you are going to develop that information.

**Mr Friedman:** Yes. We know the differences are around 4% or 5% between the Canadian and American interest rates, but what factor that is on each product is not a simple thing to determine. On each product you have to analyse, and some of that analysis will be done when they look at these various products.

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**Mr Jamison:** The second question: I have a perception that over the recent months there has been a tremendous increase in the number of people who are cross-border shopping, and I think it has proven out here from what has been said already. Myself, I really feel that once the GST was implemented, it was almost like a backlash, that people said: "Well, that's it. I have had enough." It is almost as if it were an automatic response to cause that quickening of the pace of cross-border shopping. Do you find in any of your studies that the introduction of the GST may have played a role in heightening the response of people to go across the border more readily?

**Mr Friedman:** Rena has some data. I can only tell you that it is early in the game as far as the GST goes. It is a contributing factor and we may be able to tell you how much it is, but it is a continuing phenomenon. It certainly has not helped and has probably accelerated the situation, but it is a continuing curve that has been going on very heavily since 1989. It has certainly added to that phenomenon on certain products.

**Mr Jamison:** Just so I am getting the message clearly across to you, I wonder if we could look at that from the time of implementation of the GST—because there was a standard date on implementation—to see if there is any increase. I know that is a lot of work; I know you are doing a lot of work, and you are doing, in my opinion, a very good job of trying to get a handle on this, but I think there was a reaction in the general public that basically said: "Hey, enough is enough. If I didn't have a reason for going, now I do."

**Mr Friedman:** We will certainly be very happy to come back to you and get the January-February statistics as soon as we can and let you know just what added effect that had on the issue.

**Mr Kwinter:** I would like to talk briefly about an issue that we really have not touched on. It was alluded to when we talked about Sony, but we really have not explored it, that is, how you overcome—and I am looking to you, Peter, for some solutions—the economies of scale and that fact that you have a 270-million-person market in the United States and you have a 27-million-person market in Canada. A company like Pharmor, which is a combination of Consumer's Distributing, K-Mart and all that stuff, can go to Sony and say: "We will order from you 10,000 Sony Walkmans and use it as a promotional item. What is your best deal?" In fact, they can buy it and, in most cases, they can sell it cheaper than the Canadian retailer can buy it, and even at the promotion price make more money than the Canadian retailer can make on it. This happens all the time.

One of the Toronto papers—I do not remember which one it was—had a comparison of branded merchandise, not one with smaller engines but identical, saying, "If you bought this in Buffalo, this is what it would cost you if you bought in Toronto—"factoring in everything, factoring in GST, factoring in the tax. Some of them were kind of comparable, I think a couple of them were even cheaper if you bought it here, but by and large most of them were significantly cheaper in the United States than they were here.

That has nothing to do with marketing. It has nothing to do with competitiveness. It is the power of being able to buy it, the clout that an American Sears or another American company would have with its vast customer base and its ability to buy in the tens or hundreds of thousands, depending on the item, and negotiate that kind of price. We do not have that consumer base here to do that. How do you deal with that?

**Mr Friedman:** I guess my answer is that, in certain areas, to deal with those giants is going to be difficult. I think it is a matter of marketing mechanisms. Quite often those situations look for the lowest quality product, quite often the low line of the area, and in that area you probably will not be able to compete. But if you are going up to the higher line areas, which is where perhaps we want to concentrate—but that is where the merchandise mix comes in and how you might look at it—we might be able to compete, because they are not going to be able to perhaps quite as large a number of those areas.

In some areas, where you are competing against a huge volume in a huge situation, you probably will not be able to compete directly. But maybe people are not interested in the lowest-priced consumer electronics. Maybe they are interested in buying one that is better quality. For instance, Bay Bloor Radio is in business; it is not selling products that are at the lowest in the market and it is selling them very effectively. Again, it is through a merchandise mix. We will not be able to compete in every area, but we might be able to compete in parts of the market. We have big retailers as well here. We have Eaton's; we have Simpsons. Those people can buy fairly large volumes.

As I say, in the short term, these people and the people at the border communities are going to begin looking at those same distribution mechanisms and those same volumes of buying big volumes. We know products, for instance,



are sold in Canada in those fields cheaper than in the United States, even electronic products.

I guess my answer is that selectively, I think we can compete—not on everything, so we have to choose our products and educate our consumers that sometimes the best-priced product is not always the best value.

**Mr Kwinter:** Let me give you a case history of something that happened to one of my constituents. He came in to see me about it; he knew I used to be the minister of industry and trade. He took some pride, and he is a professional man, which was kind of interesting. He wanted to buy a Lifecycle, you know, one of these things you ride on. It has all the computer printout and everything else. He went to one of the major chains in Toronto and I think—I don't remember the exact figure but it was in excess of \$3,000—\$3,200, \$3,300. He had three of his friends who wanted to buy it as well. These guys are very, very sharp, and they said, "This is ridiculous; that's too much money." So they took a look at where it was manufactured. It was manufactured in the States, and they called the manufacturer located in the Midwest. He told them who he was; he told them he is a doctor. He said: "I would like to get this thing and I have three colleagues who want them. Can you tell me where in northern New York you sell them?" They gave him the address of a company in Buffalo. They called them in Toronto and said: "We've talked to the manufacturer. They gave us your number. Could we get four of these pieces of equipment?"

First of all, he called up and asked if they had it. He didn't say four; he asked them how much, and was told \$1,500. He said, "Oh, great, do you have them in stock?" They said, "Oh, we have lots of them." He said, "What about four?" They said: "Well, if you want four, I'll really give you a deal. I'll give them to you for \$200." So he said: "Fine, we'll take four. We'll be there over the weekend to pick them up."

They got into a van, they drove to Buffalo, they paid \$1,200. They came to the border, and the total with everything, the GST, the works—because they are not manufactured in Canada, I do not think there was any tariff on them—cost them \$70 plus the exchange. He came back and said, fabulous, they love it.

That is being duplicated every single day, where people are taking a look at their economic opportunities and saying, "A dollar in my pocket is as good as a dollar in some other person's pocket and I am going to go where I can save myself some money." And they become very ingenious about it and they really work at it. This is just a casual kind of thing. They look at it and say: "You know, it pays us. We can go down there and, collectively, do you know how much money we are saving just by taking a trip to Buffalo?" That is the problem we have to address.

**Mr Hansen:** It was four people who went?

**Mr Kwinter:** No, they just sent one guy down to get it back the—

**Mr Hansen:** Because they ask at the border: Is it for your own personal use? Normally, you would not bring that thing in unless you were an importer.

**Mr Kwinter:** Maybe the four of them did, I do not know. The four of them may have gone down and got them.

**Mr Friedman:** I guess the only comment I can make—and that may not help—is I believe that our consumers are much more innovative today than our retailers. I think the name of the game is that when our retailers become as innovative as our consumers, then some of these opportunities are going to change. I understand what you are saying, but our consumers seem to be extremely innovative, and they are becoming more innovative by necessity. Doctors do not necessarily have to be innovative. The reality is that they could have probably bought it for \$3,000. But being innovative and looking for opportunities seems to be what many consumers are doing.

**Mr Kwinter:** If I could just make one comment. The point is that the consumer has the option to take a look at the options that are out there. Unfortunately, a lot of our retailers do not have that option. They cannot be as innovative as the consumer because they do not have the option. They cannot pick and choose where they are going to be selling or where they are going to be. They are stuck where they are and they have to deal with the people who walk in their door. The consumer can go anywhere he wants to where he thinks it suits economic advantage, and that is the problem.

**Mrs Sullivan:** I wanted to provide a supplementary to Mr Ward's comments relating to interest rates, because they are a factor in several ways, including cost of interest on land purchase or, if that happens to be a phenomenon, cost of borrowing for inventory, and then the other side of it is the cost of credit.

In fact, I just looked at a bill—the American credit laws require disclosure on monthly and annual basis of cost of credit to the consumer—that I had on an American credit card. The cost of credit there right now is running 16.6%, yet if I look at a comparable store in Ontario the cost of credit is 24% to 26%. So it is clearly a factor both from the cost of the overhead and cost to the consumer. Just to say you are right; it is the first time I have agreed with the NDPs since they were elected.

**Mr Stockwell:** I talk to some people occasionally and they talk about the retail business. Right now, I think you would have to have rocks in your head to go into the retail business. Clearly, the taxes, locally, provincially and federally, are killers. I do not know whether you have investigated it or not, but in my humble opinion, if you look at these things, your tax rate as a small business person is absolutely ridiculous. You are paying taxes that you never paid before now and you have to pick up exceptionally high costs to operate a small business. I am not suggesting interest rates are not part of it and I am not suggesting there may be some build in for GST, but when you pile health tax—they are talking about worker protection tax on top of that tax—and your local tax, your business tax, your corporate tax, etc, and you compare it to your American counterpart, I think you will find one of the largest discrepancies of all.

**Mr Friedman:** I would like to answer that because that is one of the most interesting phenomena of all. One



of the things we are finding, interestingly enough, is that the rate of new business starts in Ontario is just as high as it is in the United States. Even in the present recession, we are getting 40,000 to 50,000 new businesses being started in Ontario.

**Mr Stockwell:** How about closing?

**Mr Friedman:** The closings are definitely up, but you are making the point that people perhaps would not or should not or are not starting businesses. The interesting part is that people are in fact starting businesses.

**Mr Stockwell:** I am not disagreeing with you. I think they are starting the businesses; they are just not staying in business.

**Mr Sutherland:** Is that retail or all businesses in general?

**Mr Friedman:** No, no. All businesses are about that. About 70% are service, 6% are manufacturing and the rest are retail. So there is a fair number of retailers starting now, as there were last year, as there were the year before. I think that is another element, frankly, that is interesting, that will help our competitiveness: that there are a lot of people starting businesses. That is one of the reasons that I am optimistic about what may be happening in Ontario.

**Mr Stockwell:** But that is the most misleading figure of all. I am in my mall, where I am. There are lots of people starting businesses and they are coming into business and they are going out far quicker than they ever were. They are opening and closing sometimes in months. I do not think that is indicative. If you are going to look at openings, look at closings as well.

**Mr Friedman:** We are looking. We have looked at closings and they are up—

**Mr Stockwell:** Dramatically.

**Mr Friedman:** I do not know about dramatically. But from my perspective, as long as we have a lot of people starting businesses, it is a very healthy sign. The Americans, by the way, are also going out of business. Failure rates in the United States are almost as high as they are in Canada, so one of the interesting parts about the overall elements of small business is that we are not worse than the Americans. We are in the same basic situation. We have just as healthy a business startup situation. The failure rates are no higher in Canada and in Ontario, particularly, than they are in the United States, and that is the good sign. I mean, that is really what is exciting. People are still starting, and a percentage of them are going to grow and a percentage of them are not, so there are various people out there who are going to be innovative, are going to find new ways of doing things, and they will certainly not overcome all the barriers.

Many of the things that you have said, and Mr Kwinter and others, are real barriers, and no one is going to say that some magic wand is going to eliminate them, but nor, on the other hand, are we doomed to failure and it is all over and everybody is going to go to the United States. I do not believe that either. So there is a sense of balance that seems to be, at the moment, tilted this way, which I think

we can neutralize some more, and that is really what the point is all about.

**The Chair:** Just in closing, I think it might be useful for the committee to have copies of your marketing strategy. Can we get that? I believe you said that in early 1991 Agriculture Canada is bringing in a study that it has done. Will you be getting copies of that, and can you forward that to us as well? And could you also forward to us studies about what you are talking about as being the next wave in terms of retail marketing? And any other studies that are coming in, perhaps you could share them with this committee as they come in so we can be updated. Thank you very much for coming. For the rest of the committee, we have one last item to do.

**Mr Kwinter:** Peter, well done.

**Mr Phillips:** Solve this problem.

**The Chair:** That's right; we have the answers to your questions.

Miss Anderson has done some research for us and another item for us today that she would just like to share a few words about.

**Miss Anderson:** This morning people had asked about different tariff rates coming into Canada, and about limitations, and I just happened to get this in the mail today, this article, and from page 7 onwards, it gives you different tariff categories that are applicable to goods coming across the border now; also on page 10, the limitations that exist at the moment, that you can only bring 2 kilograms of meat in per person and certain other things like that. So I will continue to get the staging categories for you and it gives you some initial information anyhow.

**Mr Phillips:** I think that is almost all I need. When I looked at those, actually it seemed different than the impression the MITT person left with us, that it is a minimum 4% or 5%.

**Mr Kwinter:** If I could just explain: What you are talking about is that it just happens that those items are at that level. As I said to you this morning, the tariff rates range from as little as less than 1% to as high as 40% but on average, it is between 7% and 10%. Now, it just depends on the category. In these particular categories there, it is 18%, 16%, whatever it is, but overall, the average is between 7% and 10%.

**Mr Phillips:** I am just saying the MITT. You are saying the MITT. The MITT person said around 4% and, to me, when I eyeballed these things, just thinking about a typical category coming across the border, it seemed higher than 4% or 5%.

**Mr Hansen:** What they do is average it at the border at 12%. So they do not break it down. You have a case of beer, you have some groceries. They usually just say 12% for the total purchase.

**Mr Phillips:** I think judgementally that 12% is probably closer than 4%, and therefore my own feeling is that I hope that the dollar move from 86 cents to 80 cents is going to solve a lot of this stuff—I think the tariffs are going to go down faster than the dollar. That is all I am saying.

**The Chair:** Yes, but just remember that from 86 cents to 80 cents is somewhere in the area of 9 percentage points.



terms of exchange rate. It is calculated differently. It is a one-to-one relationship.

**Mr Phillips:** Let's say it is 7% or 8% and let's say it is % of the tariffs. I am just saying that that ain't going to be the solution. That is all.

**The Chair:** Thank you. This committee is adjourned until next Thursday, 10 o'clock in the morning.

The committee adjourned at 1712.

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 4 April 1991

The committee met at 1007 in committee room 1.

### CROSS-BORDER SHOPPING

**The Chair:** We have a quorum now. I would like to welcome the Minister of Revenue this morning to the standing committee on finance and economic affairs. If we could begin with your written presentation and then we will move into the questions. If you would like to begin now, Minister.

**Hon Ms Wark-Martyn:** I would like to thank you for the invitation this morning to come and speak with all of you. I would like to also thank you for taking on this issue and recognizing it as an important issue across this province and actually across the country.

With me this morning is Roy Lawrie, assistant deputy minister for tax revenue; Burke Williams, director of the retail sales tax branch, and Ralph Robertson, senior manager of legislation in the retail sales tax branch.

The Ministry of Revenue has been doing some work on cross-border sales. Being from a cross-border shopping community, I also am very aware of the problems and some of the complaints and some of the avenues that were suggested to solve the problem.

Underlying reasons for cross-border shopping are many. The first one and the most obvious one to the consumers is that goods are cheaper in the United States, so it makes dollar sense for them to go there and purchase what they are looking for. The Canadian dollar is high, which also makes goods even more appealing in the US. The marketing practices: In the US the retailer is more likely to buy directly from a manufacturer, while in Canada the tendency is more to buy through wholesalers or distributors. Economies of scale: There is more demand in the US because of the larger population than what we have in Canada and Ontario. Business costs are lower in the US and this is the result of different health, social and educational services that are offered. And in Canada, the provincial support is at a higher level.

The free trade agreement created a perception among consumers that they could go to the US and get their articles cheaper and pay less tax or, in some cases, no tax. Also, the tariffs have affected that. The goods and services tax too, after it became law in January, increased the amount of people cross-border shopping, and one of the reasons that they were giving was that because of the goods and services tax it seemed to be cheaper for them—economic sense for consumers—to go there.

I believe a very small reason is not enforcing the collection of the retail sales tax. Many consumers believe that when they cross the border, they have paid all the taxes. They have to pay to the province and also the differences in what we would be charging tax on compared to what the federal government collects, the customs offices collect. If there would be a minimal effect, I think, of collecting

the retail sales tax at the border, and I think that has to be an educational experience where people are educated on that.

The ministry has been lobbied by border area chambers of commerce, merchants in close proximity to the border who are losing business, border area city and town councils and, I assume, we will be lobbied in the very near future by the new committee that was set up by the area mayors who were in the city yesterday to meet.

Many people have talked about collecting retail sales tax at the border. It is our understanding that in order to do that, the province must join the federal government's GST before the federal government will consider collecting retail sales tax at the border for us.

The least expected is a harmonized tax base. Our bases are different from the federal government's. The training of customs staff would be very difficult and would have to be taken into account. The issue has been explored at the senior staff level with Revenue Canada, customs and excise, and also with other provinces. No other provinces have yet achieved it, not even Quebec and Saskatchewan, which did harmonize with the GST. The federal government is still not willing to collect retail sales tax for them at the border crossings. The difference in bases includes the following items exempt in Ontario but taxable under GST: children's clothing, books, newspapers and shoes under \$30.

Canada has a returning-resident exemption which Ontario has not adopted. Difficulties for Revenue Canada caused by residents of other provinces crossing into Canada via Ontario: Something else that we would have to take into account is travellers who just end up coming through a border crossing, not because they are cross-border shopping, but just because of their travelling plans.

Ministry of Revenue border collection has also been looked at. It would be a very costly project to begin. It would require at least five people at all border crossing points, and there are 14 US-Ontario border crossings. Consideration would also have to be given to establishing the same type of collection at provincial borders and at the international airports.

Without a returning resident-exemption, the retail sales tax would be payable when the GST and duties are not. There could also be a constitutional argument, as Ontario may not have the right to check on international border points.

Ontario could place employees in the Revenue Canada customs offices to collect retail sales tax. We would have to ask for permission to do that, and most of the border crossing offices are now too small for the staff who are in there. So the thought of bringing in more staff I do not think would be accepted by the staff who are presently there or the federal government.

Recent federal action: the express lanes that were set up in Vancouver. Apparently there is going to be one set up in Ontario; I believe it is this summer at some point. We have



not been consulted on any of what the federal government is planning to do with that.

The rule for the express lane is that it is a special lane at the border, set up for permit holders only. The users must be lawful residents of Canada or the US. They must be frequent travellers between the US and Canada. They must apply for a permit and pay a \$10 annual fee. The permit is not transferable. The permit holder must report loss, theft or sale of the vehicle. Only family members listed on the application may be in the vehicle. No controlled or restricted items may be carried, no business materials, professional goods or goods for resale. All items must be for personal use and adults are entitled to 1.14 litres of alcohol. Canadian residents would use the traveller declaration system and pay tax with Visa or MasterCard. The 24- and 48-hour tourist exemptions may be claimed by qualifying travellers.

So far the Ministry of Revenue has limited to vendor mailouts explaining the obligations of returning residents. An advertising campaign and education campaign was considered by the previous government, but it felt that it did not want to go ahead with that for its own reasons. The present newspaper articles on cross-border issues have also made the public more aware of cross-border shopping and the effects it is having on us as a province and the effects it is having on the municipalities directly affected.

Co-operation with other jurisdictions has begun. Exchange-of-information agreements have been signed with all provinces. An agreement has also been reached with the state of Ohio, and we are actively pursuing agreements with other states. This addresses, unfortunately, only the instances where the goods are shipped into Ontario and exemption is claimed in the sending jurisdiction, so the agreements will not address the Ontario residents shopping in the US and returning with their purchases. The branch is able to assess tax on the purchases made and shipped to Ontario from the data received from other jurisdictions.

Sunday shopping also has a minimal effect, I feel, on cross-border shopping. In meeting with people through the whole time period before the ruling came down from the Supreme Court, the chamber of commerce people did not feel that having the stores open in their community was causing more people to stay in the city, in that municipality, to shop on that Sunday. People were still going cross-border shopping, so they did not feel that had an effect.

The two main articles that are purchased when people go to the US have been gas and groceries, both of which we do not collect retail sales tax for. So collecting retail sales tax at the border would not mean that we would be collecting on those two articles, which are the largest purchases that people make when they go to the US.

There have been explanatory talks at senior-official level with regard to the collection of retail sales tax by Canada Customs. The differences on the tax paid would create a lot of difficulty and therefore would make it almost impossible to do unless we were willing to have the same tax base as the federal government has. As I said, where the tax base has been adopted by other provinces, as in Quebec and Saskatchewan, the federal government will still not collect the tax for them.

We are presently working on an agreement to go to Jelinek, the Minister of Revenue for Canada, to ask if we would agree to collect the retail sales tax at the border in order to do this, we have to be prepared to have a bargain tool to take with us. I am prepared, in consultation with the Treasurer and other ministers affected, to introduce an amendment to extend the federal returning-resident exemptions to retail sales tax. All the indications we have from the federal government thus far have said quite plainly that it will not collect our tax. Maybe by offering to have the same exemptions as they do, we may be able to collect some. I do not know, and that is something that we are presently working on.

**Mr Kwinter:** I have several questions that I would like to pursue. One of the things that bothers me about the whole issue is that I do not think we really have a handle on the magnitude of it. I think that all of the figures are predicated on what happens with declared goods at the border. I do not know what the proportion is, but it could be one fifth, a tenth, a hundredth of what really comes across the border.

Do you not think it would be valuable for the Ministry of Revenue to at least identify, as accurately as it could, the magnitude of the problem? You can come across the border and if you have gone over for the day and if you claim that you have bought less than \$20 worth of goods, you just say that and away you go. Again, without trying to impose any motives to people, I would be surprised if anybody goes over to Buffalo for the day and spends as little as \$5 but they come across and they say that they do.

If we could get at least an idea of the size of the problem it might justify some measures that might seem to be terribly expensive, given the problem as we see it on declared goods, but may be very, very small in comparison to the actual dollar value that is flowing out of Ontario.

I do not know if any of your officials or anyone has had an idea or has thought about trying to identify the size of the problem.

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**Hon Ms Wark-Martyn:** We have definitely thought about identifying the size of the problem and realized that it is a very large problem. We do not have a handle on probably how serious the problem is, because as you say, a lot of people probably go through, they say what they have purchased but have not said what they have not purchased or have acknowledged what they have not purchased.

I think doing a study—we have talked about it in the ministry and I have talked about it with the officials—it would be very hard to do. It would have to be a study to get a magnitude from one particular area. I could ask Mr. Wark-Martyn if he wants to comment any further.

**Mr Lawrie:** I think that only Canada Customs is in a reasonable position to size the problem, and I think it would have occasional surveys of people crossing the border where they are asked to fill out a detailed questionnaire about what they purchased. From our perspective, it would be nice to know exactly how much revenue that we are missing but we would require a further breakdown than the federal government would to determine which of the items were



taxable from the point of view of retail sales tax, which is not the same base as GST, as you know.

We have also examined the possibility of trying to estimate the loss over time through looking at our own tax collection in the border areas, but there are problems with that, particularly with chains, where most of their revenue, according to the tax roll, is attributed to the head office of the chain. It is not on a retail outlet basis. That is not how our tax roll is structured, basically because that is not the way the vendors want it. They want one account for the entire business. So there are difficulties in estimating it by way of a drop corresponding to an increase in statistics out of Canada Customs and also out of various studies that have been done by municipalities on increasing border shopping.

So there is a problem. I agree with you; it would be nice to be able to quantify it, but Canada Customs is really the only people who are able to do it, and even then only by way of a partial survey. As you know, you do not always make a written declaration to customs, coming back over the border.

**Mr Kwinter:** That is exactly my point. I would say that the bulk of the people who come across the border who have been day shopping do not make a written declaration. They just say, "I spent \$20," and away they go.

**Mr Lawrie:** That is right.

**Mr Kwinter:** It would seem to me that given the fact that we have pollsters and researchers who can supposedly determine within three or four percentage points the accuracy of anything that they want to poll—

**Mr Sterling:** Except for Goldfarb.

**Mr Kwinter:** Well, there are some notable exceptions. You would think that they would be able to do a survey. I am not as concerned, although I am concerned, about the loss of revenue as far as the Revenue ministry is concerned, about not getting its 8% retail sales tax. That is an issue, but I am far more concerned with the loss of economic activity in Ontario that is going over to the United States. The numbers would pale in comparison, like the loss of retail sales tax compared to the dollars that are being spent in the United States and are not being spent in Ontario.

So it would seem to me that some creative researchers could devise some method whereby they could actually sample people coming over, and as I say, if they did it properly, where they could assure them that they were not in any way trying to catch them or fine them or do anything else but just to get a realistic evaluation of: "How much did you spend and on what kind of objects? It's not taxable; we're not going to do anything about it other than just to try to get a handle on the issue."

It would seem to me, as I say, that there are companies that could creatively do that, because it seems that until we really know the size of the problem, we are not going to be able to come up with a solution.

If I could just go on to another area that follows on this, which deals with the size of the problem, have there been any studies by the Ministry of Revenue or any other ministries in the government to determine the impact of cross-border shopping as it applies to municipalities that are not normally considered border communities? The minister

announced that she, in fact, lived in a border community. We discussed this the last time this committee met. It would seem to me that if you have Thunder Bay, which I think is about 200 miles away from the border, considering itself a border community and considering itself impacted by cross-border shopping, virtually every municipality within 100 or 200 miles of an American border-crossing point would have the same impact. Has there been any research to determine the size of that particular problem?

**Mr Lawrie:** Not as far as I know. There may have been by other ministries.

Going back to your original question, I understand that the Ernst and Young study that was done in Sault Ste Marie was on the basis of detailed surveys done, asking people what they purchased when they were away. My understanding is that one result of that study was that 36% of total dollars spent were spent on gasoline and 27% of total dollars spent were on groceries. There is one study, I do not know how extensive it was and how statistically reliable the results were in predicting overall patterns, but it has been tried and there have been estimates of who is spending what.

It is certainly clear, as I am sure you know, that driving to the United States for a weekend, particularly to take advantage of \$100 exemption, is now not an uncommon thing as far away from the border as Whitby or Oshawa, whereas it used to be. There has been a tremendous rise in the number of Ontarians going across in the last few years.

**Mr Kwinter:** If I can just end by making two comments. One, the minister referred to the potential of an advertising campaign to educate Ontarians as to the economic effects of their shopping in the United States. I would suggest that could be a double-edged sword. By buying cheap goods in the United States and the benefits that are there, you are depriving Ontarians of a place to work, although I support it. You are also going to have the problem of bringing it to the attention of a lot of people who may not have been doing it, who may say: "This must be something that we should look at. I guess somehow or other we are not as bright as some of these other people. We should be going over to the United States and dealing with this."

The second comment is about the Sunday shopping. I think it is true that when you talk to the mayors they say that Sunday closing is not the reason people go across to the United States. But what I think is true is that up until recently, when Sunday shopping for the last nine months or so was wide open, people were going because of the economic benefits. I think there is no question that that is the driving force.

The fact that there is Sunday opening in Ontario or not is not going to deter those. But there are people who normally would be able to shop on Sunday. They would not go to the States, even when they could. But now that Sunday shopping is closed, they will go. So it will not impact on the people who are already going, and Sunday openings or closings are not going to change the number that is there. I have no proof of this, but it would seem to me that the people who were not going across to the United States,



more of them will be tempted to go if they cannot shop on Sunday here and they can shop there.

**Mr Stockwell:** Other than some gut feeling, such as Sunday shopping has very little to do with the cross-border shopping, the GST and free trade that brought some kind of perception that shopping in the United States is better or cheaper or so on, you have very little data to offer us as far as lost revenues and rationale and reasoning. Would that be fair to say?

**Hon Ms Wark-Martyn:** Yes, it is very hard to obtain data for lost revenues, because we are not at the border crossings right now. We do not know. Our tax bases are different from the federal government, so that makes it very hard to measure.

**Mr Stockwell:** You have very little hope in the very near future, other than this meeting with Mr Jelinek where you are taking a chip to negotiate with, that we will have any glimmer of hope in the future as far as marrying some goods with the federal government so that we can collect tax in that way.

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**Hon Ms Wark-Martyn:** We are doing what we feel we can. We feel increasing the tax base would only drive our consumers more so over the border.

**Mr Stockwell:** Yes. I do not disagree with you.

**Interjection:** Do not drive them any further.

**Mr Stockwell:** No. The other question is, do you believe that your ministry has any role in resolving this problem and, if so, what?

**Hon Ms Wark-Martyn:** Our ministry does have a role in resolving this problem. I think there are many ministries and many people in municipalities that have a role. Business has a role; we all have a role in resolving this problem.

**Mr Stockwell:** I am far more interested in your role and what you see it as.

**Hon Ms Wark-Martyn:** Okay. I think we should educate the people on the retail sales tax, that it is something that people should be paying, because most people whom you talk to after they have gone through the border crossing feel that they have paid all the tax they have to pay. Many people are not aware that there is also a retail sales tax that they should be voluntarily paying. Maybe people do not realize, and that would be where the education comes through, why they have to pay this retail sales tax, where this goes to. The dollars go to our social system, our health system, our education system, municipalities receive grants. We need this tax base to stay in our province so that we can stay as a province and be able to build economically.

**Mr Stockwell:** Anything else? Because that is pretty hopeless. You can talk all you want and try to convince people to pay tax; they are going to say, "Buzz off, I already pay enough tax." If they can get away with it, they are going to get away with it.

**Hon Ms Wark-Martyn:** If it is done properly and effectively, and if there is more than just my ministry doing things to heighten people's awareness, I think it will have an affect.

**Mr Stockwell:** The other question is, if we want to get to the root of this problem and bring the proper mind to question what the heck your government is doing and I am not suggesting it is your problem or whose problem I do not know who is picking the ball up on this one for your government—I would really like to talk to that person. Who is it that we should be bringing in to ask very probing questions, exactly what is going on, how you are resolving the problem and trying to help these border towns resolve the issue? Clearly it is not you. Who is it that you think?

**Hon Ms Wark-Martyn:** I have a role to play in this.

**Mr Stockwell:** I know, yours is in education.

**Hon Ms Wark-Martyn:** So do a lot of other ministers. But the real person you should be talking to, I really think, and I would feel you may have more of an impact on that person than I do, is Michael Wilson.

**Mr Stockwell:** He will not come, I am sure. He probably will not come. We have a lot of trouble getting him down here. We would probably have a very good deal of difficulty getting Mr Wilson down here.

Besides that, I know you suggest that and I keep hearing that, but there must be some role your provincial government could play. All I am asking you specifically is, what is it that I have to request to come to this meeting who can answer some questions? What are you doing?

**Hon Ms Wark-Martyn:** You have to ask all the ministers who are involved, border town community may be the mayors group. Those are all people who are involved. All levels of government are involved in this issue. It is an issue that the Ontario government is going to pick up and say, "We have this problem, we are responsible for this problem, and we can solve this problem," because we are not doing any of the above on our own; not one person in the government, not one ministry in this government.

**Mr Sterling:** I guess the only solid figure that we have in terms of the problem is the actual declared amounts that are being made. What are the declared amounts coming into Ontario in a year?

**Mr Lawrie:** Our system is not set up to analyse the source of retail sales tax paid voluntarily, but I think it is fair to say that we feel it is well under \$1 million annually in terms of voluntary payments from people returning from cross-border shopping trips.

**Mr Sterling:** Okay. I wanted to ask that question, appreciate the answer, and that was later. My question was in terms of the people who do declare—and I think it is what Mr Kwinter has said, a minority of the number of people who do come across—how much is declared in a year across Ontario borders and at the airports under the federal government? Surely you have that figure.

**Mr Lawrie:** We would have to get that information from Canada Customs, but we will try and get it right away if you are interested.

**Mr Sterling:** You mentioned that there are differences on the tax base. I think you mentioned, Minister, that there were really only three differences, shoes or something under \$30. What were the other ones?



**Hon Ms Wark-Martyn:** Those were the only ones at I mentioned.

**Mr Sterling:** Children's clothing?

**Hon Ms Wark-Martyn:** Children's clothing, books.

**Mr Sterling:** So relatively speaking, you know we are talking about a minority or a very small number of items that might have been brought across the border and declared. What I cannot understand for the life of me is that we have a serious problem here. I do not think there is one member of this committee who would think that if you were collecting retail sales tax at the border that would have a very sobering affect on people going across to the United States and shopping there. Quite frankly, I am amazed you do not have the basics to start from.

I am flabbergasted that you come into this committee and you do not know how much has been declared coming across into Ontario by the federal government, because my empirical analysis would be that I would say we collect a billion dollars from people voluntarily. There is so much being brought in; multiply that times the provincial sales tax and you have a rough figure, where your very low estimate would be. I am just absolutely astounded that we do not have even that kind of concern on the part of the Minister to provide this committee with anything that is of any value.

I hate to be so outspoken on that, but I would have thought that there would be—and I believe that the Ministry of Revenue, when it goes to collect the tax, figures out what are the possibilities of the revenue to the government, and then you calculate how much it is going to cost you to collect that. If there is not a good ratio there—in other words, if it costs you more to collect than what you are going to collect—then forget about collecting. It just does not make any sense to do that, but I thought that would have been the first step that you would have done.

You have to have some kind of estimate as to what you are losing. You know the low estimate I am talking about. Do you have any kind of estimate? Is it \$1 million, is it \$10 million or is it \$30 million?

**Hon Ms Wark-Martyn:** The Ministry of Industry, Trade and Technology did an estimate for eight border communities in Ontario and its estimate was \$340 million to \$360 million per year.

**Mr Sterling:** Okay. So let's take \$340 million. If you offered to the private sector a contract to collect or put out a tender to the private sector to collect, do you think you could get a tender under \$340 million? It astounds me to again hear your arguments and say that it is an impossibility to collect this \$340 million.

**Mr Hansen:** You are talking 8% of \$346 million.

**Mr Sterling:** Okay, so we are talking \$26 million.

**Mr Lawrie:** No, the \$340 million is total retail sales. Not all of it would be taxable. In fact, most of it would not be.

**Mr Sterling:** Okay, so you have no figure on what it is. Now, you say it would take five people at each border crossing. I find it hard to believe that in Prescott you are going to need five people. I know you have to cover all the shifts, etc. I do not know whether that is an average that

you are using or whatever. There are how many, eight border crossings?

**Hon Ms Wark-Martyn:** Fourteen.

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**Mr Sterling:** What kind of cost are we talking here? Have you done any cost analysis at all on what it would cost to collect it?

**Mr Lawrie:** I believe our rough estimate of total costs would be in the \$10-million range. That is ignoring the provincial borders, the borders with Quebec and Manitoba; only road crossings and international airports and providing a 24-hour service.

**Mr Sterling:** What would it cost to do it with the federal government?

**Mr Lawrie:** It would depend on how much they wanted to charge.

**Mr Sterling:** Are you offering them money to collect the provincial sales tax?

**Mr Lawrie:** We would expect, from our experience in other taxes, that they would want to recover at least their costs, and of course we would want to pay at least that. It is a question of how you prorate those costs. If you are collecting with federal and provincial tax, then some of the costs should be prorated.

**Mr Sterling:** Oh, absolutely. If you go and talk to Otto Jelinek, I think you should be prepared to put some money on the table. We pay them for collecting income tax; I forget what it is, 1% or whatever it is of the tax collected. I do not see any reason why you cannot enter into a similar agreement on this end of it.

I just do not understand why you are not being more aggressive in trying to strike a deal with them, even if you can break even on what is happening here. Because it is obvious from the deputations that we heard in the pre-budgetary consultations that cross-border shopping is having a very, very significant impact on border communities, particularly for members down in this area.

I do not like putting taxes on shoes under \$30 or on books or whatever, but it seems to me that those are pretty minor, insignificant changes to make, considering the overall effect of what is happening here in Ontario. Even if you have to alter your tax base on three items, it does not seem to me that is a significant situation.

I am also concerned about the fact that you are talking about a great deal of training required for the collection of tax. We ask our private sector, of course, to make changes in collecting tax at the drop of a hat. I do not quite understand the significant amounts of training involved in doing this task.

You can blame the feds, you can blame everybody else, but I am really upset that the provincial government is not aggressively going after finding the solution and putting some money on the table when it is talking with the feds, to say: "Look, we are going to benefit. Our revenues are going to be increased, our communities are going to be better off if in fact we collect provincial sales tax." By Jeez, it is about time the Minister of Revenue and this government did something about it, because they have, in



my view, all the means to do it. Why do you not do something, Minister, that is aggressive?

**Mr Williams:** If I might say a few words on that, we are, of course, not the only province that is involved in the cross-border shopping issue. Some of the other provinces before us have in fact pursued it aggressively and the federal government has refused to negotiate any agreement to collect the tax at the border.

We suspect that unless they can get all provinces at the same time to join GST, then they will not go ahead with any agreement to collect tax for any one province, because if they collected it for one province, then that province would be at a disadvantage vis-à-vis any other province. If Ontario were having its tax collected at the border, then everybody would cross into Quebec and come back into Ontario that way, just to avoid paying the tax.

In addition, you ask about the exemptions. You said there were—

**Mr Phillips:** I will drive from Buffalo.

**Mr Stockwell:** Yes, and we are going to go through Manitoba, that is for sure.

**Mr Williams:** In the Brockville area, it would not be quite that far. But you mentioned the exemptions, of shoes of \$30 and under and books, as being rather small. I think that you would find the issue of children's clothing much larger.

**Mr Sterling:** Maybe you have to train your people to make an exception under those circumstances. But notwithstanding that, which problem is bigger? I do not know. Maybe you do something in terms of giving people who have children some kind of rebate on their provincial income tax form to offset that if you want to continue to have it.

I say doing nothing is—you are just watching the retail trade go down the tubes in Ontario and you are continuing to fob it off on the federal government as though it is its problem.

Look, Quebec has said that it is in. If Ontario is into this thing, then it is done because you have probably 70% of the cross-border shopping done in those two provinces. I do not understand the reluctance of this government to be aggressive on the issue.

**Mr Williams:** The three provinces identified as being the highest cross-border-sales issues are British Columbia, Ontario and New Brunswick. Quebec is not a big issue, apparently.

**Mr Sterling:** What percentage are we?

**Mr Williams:** The studies do not indicate. There is only one border crossing in British Columbia.

**Hon Ms Wark-Martyn:** I am curious, do you really think that if the retail sales tax was collected at the border, people would not cross-border shop in these towns?

**Mr Sterling:** I think it would have a very, very sobering effect on the practice. It depends on how stiff you make your collection procedures at the border, how many searches are done, all that kind of stuff.

**Mr Hansen:** I cannot understand why the federal government is allowing the amount of tax lost on gasoline, just the same thing as the provincial government is losing.

I have not got all the solutions to the problems. I have been thinking about this for quite a while. It has been an ongoing problem in our particular area for actually the past couple of years. If the feds do not want to collect at the border, it is too bad that we did not have an envelope when they went in declared on GST that we had a copy from the federal government of their payment of GST. We can turn around with just an envelope there that a person picks up to send the money in to Ontario. If the person fails to send it in, then we bill them for the service charge for the money that they owe. It is just an idea. I am not a professional finance person, but I am just coming up with a few ideas. Could you comment on that, or have you already looked at that already?

**Hon Ms Wark-Martyn:** Yes. The federal government will not give us that information. We have already looked into that.

**Mr Hansen:** The other thing is—and Mr Kwinter was just sort of relating—we went through this discussion with other people and our own committee on the actual amount of money that is coming across the border. It is an area that we really do not know, because you can get four ladies in a car and each person, say, with \$35 worth of groceries, and they fill the truck up. If there are four different families, they take a look at four different purchases. If you come across with your family, they look at it as a family purchase, or one, say \$35. I am talking about street talk, what I hear about what goes on at the border. I am not very far.

The other thing that someone brought to my attention this last weekend is an ad that appeared in the Welland Port Colborne Evening Tribune on, I believe it was, Saturday. The ad in the paper stated—and I was talking to somebody on this and as I say, this is street talk; I have not investigated it at all—they are advertising pools in the United States, a 24-foot round for around \$1700 delivered to your driveway in Ontario. In other words, it is going to be dropped off.

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I understand—and this may be an area we have to investigate—that you purchase the pool in Buffalo, you pay for it in Buffalo, and it is going through a distributor here in Ontario which is the very same company, but actually you pay New York state tax because it is cheaper than paying Ontario sales tax. So I would like it if the retail sales tax branch would get back to us on exactly what is happening. I think we have to be a little bit of a detective, too, to find out where we are going wrong, not just saying "What can we do?" But I think, as Mr Sterling is saying, we have to get into the problem and see what we can do to solve it.

**Mr Williams:** The issue that you are raising is whether the vendor outside of Ontario makes delivery into Ontario of goods, and we would certainly obviously like to know who those people are. We would even more like to know who the customer was and therefore we could raise the assessment.

We have an agreement with each of the other provinces as the minister indicated earlier, where in fact we can get the information if it comes from Manitoba, if it comes from



uebec, if it comes from Alberta, if it comes from Nova Scotia. It does not matter, we can get that information. So far, we have only been able to get an agreement of that nature with the state of Ohio. We have been actively pursuing it with the state of New York and the state of Michigan. Unfortunately, they have legislative problems in being able to provide that information or to give us such an agreement, so they would like to do it and they are working on it.

Under these agreements, they would list for us all sales which they made exempt of their own tax because the vendor delivered it outside of their own state. They would provide us with that information, they would provide us with the name of the customer, and we would simply ask if the customer has paid the tax, and if not, "Here is your bill."

**Mr Phillips:** I think the presentation kind of highlights the challenge we are going to have, and that is to get the data. My recollection of MITT was that it was going to give us in two or three months where the cross-border shoppers are coming from. I think they said that. That is the thing. All of us have opinions but nobody has facts, the opinion being that the cross-border cities or towns are moving closer and closer to Toronto or further and further from the border and past Toronto.

The second thing is I am trying to list the facts we are going to need in the end to deal with it. One is, where are they coming from? The second is, what is the magnitude of the problem? I think we have heard today you are not sure of it, no one seems to know.

The third thing I am learning here is that this is a bit of a tar baby and nobody wants to grab hold of it because the solutions are not obvious. So I realize it is convenient to say, "Well, go and see Mr Wilson," and then it is Mr Wilson who will say, "Well, you go somewhere else." We are going to have, I think, a challenge with this one because no one wants to get hold of it. I do not think that will be an acceptable answer for the people who are going to be impacted by it. They are going to want this Legislature to do something.

The other thing is, I think the study may in the end show that the prices, Canada versus US. When all is said and done, if in fact you can go over there and buy dramatically cheaper, legally, all the other stuff we try and do in the end may just be fooling people. That does not say there is not a bunch of things we have to do. I do think there is a bunch of things we have to do over the next two to three years, but if, when MITT's study or the federal government's study lists all these items for us—and as I say, if there is a dramatic difference legally, you can go and buy dramatically lower, we may be trying to push water uphill.

Having said all that, one thing that I believe mayors will be coming to us for is Sunday shopping, even though the minister says that is not an issue. I think the city of Windsor already has said it is an issue and has moved on. So I have two questions really; that will be one of them. The second one is, I think they will be asking for some differential in gasoline prices on taxes away from the border. In other words, the tax will be, whatever it is, 5 cents a litre at the border and 10 cents a litre in Hamilton and 15 cents a litre here, that sort of thing.

My questions to the minister: One is, apart from the opinion, do you have any evidence that would support your Sunday shopping belief that it really is not a particularly relevant issue in here? For example, what percentage of cross-border shopping is done on Sundays and what were the differences in cross-border shopping before and after the openings? Are you planning to track Windsor shopping before and after Sunday openings? Presumably, they have closed for a little while.

My second one is, have you plans to have a tax differential on petroleum products from the border or away from the border?

**Hon Ms Wark-Martyn:** This is a challenge. It is a challenge for all of us and it is something that I think everybody who has been affected by it wants to get a handle on, but the only way we can get a handle on it is if we all decide that we want to work to resolve it. The problem that everybody is facing is with the federal government and the value of our dollar. That is a real problem in getting them to deal with it and to learn what it is doing to each of the provinces and the communities and getting them to want to help us resolve it. It has to be something that is very serious and is a very key issue in resolving the problem. It is not that no one wants to resolve it—people do want to resolve it—but everybody has to be in on the game to resolve it. We cannot resolve it on our own without the assistance of the federal government. No one can resolve it.

**Mr Phillips:** Can I just comment on that, because we had the MITT and it said that the tariffs are, on average right now, 12%, I think it is. They are going to go down over the next eight years to zero. No one is predicting that the Canadian dollar is going to drop 12% versus the US dollar. So, if a lower Canadian dollar is your solution, you may be grabbing smoke there.

**Hon Ms Wark-Martyn:** The other thing is, there were some studies done on Sunday shopping when the cross-border communities did have Sunday shopping. I know the Thunder Bay Chamber of Commerce did one. They see no difference in the shopping in the community on Sundays. People were still going to the US for the weekend, for a trip, to get away, and were doing their shopping in the US across the border. They were still not staying in the city to do their shopping. Fewer people were going out on Saturday and you had a few going out on Sunday, a Saturday decline in the workload in the stores in what they were bringing in. They were bringing in more on Sunday, but they did not see Sunday shopping, having the stores open on Sunday, bringing any more dollars into their stores.

So there were some studies done. Sunday shopping and cross-border shopping I think are two very separate issues. People are grabbing at straws to say, "Well, if you let our stores be open on Sunday, then we will not have cross-border shopping." You will have cross-border shopping because consumers feel it is cheaper to go across that border and pick up whatever it is they need and bring it back.

**Mr Phillips:** Do you have any evidence of that? That is all I am saying, because I think Windsor, just last night or a couple of nights ago, did not think it was grasping at straws;



it thought it was doing something significant. I gather St Catharines or Niagara Falls is going to deal with it tonight, not thinking it is grasping at straws. But do you have any empirical evidence that would help them or us determine what impact Sunday shopping has?

**Hon Ms Wark-Martyn:** I know the chambers of commerce have done studies. I have talked with them. Sunday shopping was an issue. I know when the north-western Ontario chamber of commerce was here, it did not link Sunday shopping and cross-border shopping as the same issue. They said that it was totally separate, and doing one will not resolve the other. They were two separate issues that they were looking at and did not see them as affecting their economy in such a way that they would stimulate a lot of economic growth by being open on Sundays.

**Mr Phillips:** The gasoline tax?

**Hon Ms Wark-Martyn:** The gasoline tax is under the jurisdiction of the Treasurer, as you are aware. If you put in the gasoline tax around border areas, you would have a domino effect within the province because, as you said, people from the middle of the province now are going out to cross-border shop. So I think that would be something that would have to be looked at very carefully.

**Mr Phillips:** Has anyone looked at it?

1100

**Hon Ms Wark-Martyn:** Yes, we have talked about it. But it is under the jurisdiction of the Treasurer, so he will be making the final decision in bringing it to cabinet. But it has been something that has been discussed.

**Mr Phillips:** Is the belief that it would positively help border communities?

**Hon Ms Wark-Martyn:** There is some talk that it may; there is some talk that it may not.

**Mr Phillips:** Well, that pretty well clears it up.

**Hon Ms Wark-Martyn:** Yes. People go over to buy and they end up getting their gas there, but they probably end up getting other things while they are there.

**Mr Phillips:** That is the point the cross-border people make, that they go for gas, then they are getting other things that, if they did not go for gas, they would not get.

**Hon Ms Wark-Martyn:** It is something that we are discussing. I do not have a firm answer to give you on that right now.

**Mr Phillips:** I am just trying to get the information. We are going to want recommendations, and if there is some evidence that would be helpful to the committee in terms of the impact of a gas differential—because I will repeat what I said earlier, I have a feeling that our solutions will have four or five things, none of which will solve it, but all of which will be mildly helpful. That is why I think Sunday shopping will not solve it, but it may be mildly helpful for a portion.

**Hon Ms Wark-Martyn:** Okay. Do you have some stats?

**Mr Lawrie:** Yes. Obviously, the province of Quebec has a differential gas tax rate the closer you get to the border with Ontario, as well as the border with the United

States. Our information from there indicates that it does not really achieve the intended objective, the reason being that there is a drop in retail gas prices initially, but very soon it disappears, within one to two years, because of marketing practices inside the trade. There is also massive evasion.

**Mr Phillips:** There is massive what?

**Mr Lawrie:** Evasion. There is a built-in reason to show that product is being sent to low-tax areas where in fact it is not. Also, there is a built-in incentive to actually move product that is sent to a low-tax area to a higher tax area to sell, and unless you put in a lot of compliance resources, auditors in other words, inspectors, to track the flow, the volume of product, then you are going to get massive evasion.

So the three things that I think have been experienced in Quebec are that it did not achieve its original policy intent; it was very much more expensive in terms of lost revenue than you would otherwise think—really, the evasion problem—also, if you want to have it monitored in any reasonable way at all, it is very expensive.

I have some figures for Ontario with respect to that because this is an issue that we have looked at. We have looked at it before, not only with regard to the US border but other specific areas within Ontario. Right now, 1990-91 fiscal year, our total expected revenue in gas tax is \$1.1 billion. Our total cost of collection is \$1.6 million, everything. So roughly speaking, it costs 0.1 cent for every \$100 that we bring in. It is a very cheap tax to administer. I think it is our cheapest. The basic reason for that is that it is levied at the refinery wholesale level. There are only 4 collectors in the entire province. We do not need to track where gasoline goes, as long as this rate is the same in Ontario. All we need to track is gasoline coming into the province and gasoline going out of the province. So you do not need an army of auditors.

Basically, there are about 10,000 retailers of gasoline in Ontario. There are about 3,000 of those within 48 miles of the US border. The present rate is, I think, 11.3 cents a litre on unleaded. In other words, for each cent a litre, you bring in about \$120 million a year, and there are 10,000 retailers. So for every thousand retailers, you bring in \$120 million a year. So if you were to drop the tax by three cents, for example, for the 3,000 or so retailers close to the US border, it would cost you \$108 million in revenue in the year initially. In order to prevent evasion and avoidance, mainly evasion, you would probably need to double the existing costs of administration because you would need to carry out audits, you would need to track product and you would also need to carry out audits at gas stations, reading of the meters, to make sure that the figures were not inflated and that you are not on a paper chase. So it is very expensive.

**Mr Phillips:** Yes. How much do you think we are losing right now to the US?

**Mr Lawrie:** We have not tried to estimate that. Perhaps they have in Treasury in terms of day trips and gasoline bought outside the province. I have not got the figures at my fingertips, sorry.



**Mr Phillips:** Presumably if we are losing in those areas 15% to the US, you could offset your 3 cents a litre very quickly.

**Mr Lawrie:** If the differential was enough. If you are looking at a differential gas tax rate, perhaps it should be participated in by other governments. Perhaps the federal government should participate in it. Surely an incentive is there for it too. At least that would be the policy rationale. Perhaps the municipalities that think it is a big problem might be able to share in it in some way and perhaps industry might be able to share in it in some way too. It is not a particular provincial tax problem. As a solution maybe it would work but it would need a lot of policing. It is obviously done in Quebec now. I cannot possibly say that it is not possible to have such a differential rate; it is possible. It is a question of how tight you want it to be.

**Mr Kwinter:** I would like to talk about this gasoline tax and the differential. I really think it is a mug's game. What they are really talking about is that the market would deal with it. If you are in Quebec and you are near the Ontario border, the gasoline wholesalers and retailers could adjust their price to take care of what they perceive to be the marketing differential, if they are losing market share. But for the government to get into it is just going to exacerbate a problem that in the years that I have been here I hear of constantly, and that is people in the north complaining that they are paying too much for their gas compared to people in the south, people in the east complaining that it is too much more than what they are paying in the west.

You would have a situation where, as I talked about earlier, people would be saying, "Well, I am in effect a border town." whether they were or they were not. And how do you define what is a border town? The other major issue is, even if you are, say, in Fort Erie or in Windsor, not everybody in Windsor who drives a car goes across to Detroit to buy his gas. But by reducing the price, you could get everybody who buys his gas at reduction and it could probably more than offset any of the advantages that you would get. As I say, it really is a mug's game to my mind. I would love to see someone come up with a scheme that he thinks would work.

I cannot see how it could possibly work, because the differential at the present time is too great. To bring it down to a level that was going to make a difference would give benefits to the general population in the area that could more than offset it, plus get pressure from the areas that are too far to be classified as a border town saying, "You are just exacerbating the situation," as it is now. The people in northern Ontario, it is going to be worse for them, so I do not see that as a solution.

I also want to talk about the Sunday shopping. I think there is a misunderstanding about the issue. I do not think anyone is suggesting that if you had open Sundays it could solve the cross-border shopping. I agree that they are not related in that way. The people who are going to the United States to shop are going on Sunday whether it is open or it is not. We have been discussing this issue in this committee before the Supreme Court came down with this

ruling and we were concerned about cross-border shopping. So it was not that we were concerned that if Sunday was to be shut down it would be a problem. It was a problem then.

I think it is fairly logical that it is going to be exacerbated. It is going to get worse because people who were able to shop on a Sunday will not be able to. The only alternative, if they want to do Sunday shopping and they live in a border town, is to go across to the United States, where they might not go if they could do it. I do not think it is going to lessen it. It is just going to increase it. To my mind, I think that is a very obvious conclusion.

#### 1110

The other comment I want to make is on the discussion about whether or not effectively implementing the 8% retail sales tax would really be worth while and generate any revenue of a meaningful kind, seeing how much of the goods which are brought across are sales-tax-free anyway, or exempt.

The concerns that I have are the concerns that Mr Hansen raised and some of the concerns that this committee has heard. It is not the normal, typical householder who goes across the border and buys her groceries and buys her milk and buys her gasoline and buys the odd little thing. The stories that we have heard are where people are going across with trucks and buying truckloads of siding, plywood and roofing materials and all of these things and bringing that back.

Without the economies of scale and without the distribution advantages and without all of the other things, that 8% in itself may be an incentive. The guy is having a large enough purchase and he feels that if he can go across to a US border community and save 8% on a \$3,000, \$4,000 or \$5,000 purchase, where he will pay the federal duty, pay the GST, but save 8%, that in itself might be enough incentive. I think that is something we should be looking at.

**Mr Hansen:** As Mr Kwinter just mentioned, we are talking about the simple things that are coming in. I have a local supply company in Beamsville and I met with the chamber. They were complaining about cement blocks coming over here to Canada, where just down the street there is a cement block plant. We are getting down, not just to the milk and the gasoline and those purchases of cigarettes etc, over there, but it is getting into some of our basic products that we produce in the Niagara Peninsula. So it is becoming quite competitive.

I think it would be very interesting on the day that Tony Commisso—he was one who I had said should appear before this committee—not asking as a committee, but as an individual knowing Tony and involved with this. He has been very aggressive as a businessman in the Niagara area with his ads. I think he had four litres of milk for \$1.99. You are not going to get it cheaper across the border by the time you exchange it. So I can see a lot of aggressiveness by the retail trade in our particular area. But they still get stepped on because we have advertising coming in from the United States advertising these loss leaders to attract customers across there. Here we are, trying to get it to work in our area and being stepped on, especially when it is printed in the USA, delivered across the border and



inserted in one of our local papers. Next week I think we will find out quite a bit.

The other thing is that I live in Ontario, but I always thought I lived in Canada too. I am not trying to knock the federal party on that point, but I think I am a Canadian. If we get into looking after Canada, looking after Ontario and BC and the rest of them to follow, if we are going to cut the price of gasoline on taxes at the border, then the feds should be matching what we do at the border. This is a problem for Canada. It is a problem for Ontario, and I think that we should be talking to Mr Wilson to say, "This is a problem for both levels of government, not just the provincial level." I do not think we have to support everything here in Ontario just from the provincial level. We should be coming together as Canadians to fight this problem.

**Mr Stockwell:** I think the last statement was very clear, it was very to the point. I agree with it. Somebody has to give up revenue somewhere. I am not going to suggest for a moment that the province is the only one that needs give up the revenue; the feds need to give up some revenue as well. I agree, we are gouging them; at the gas pumps we are gouging them. If we were in the private sector, you would be charged with gouging for the amount of money you are generating in revenue off some of these things: the sin tax, the gas tax and so on down the line.

**Mr Kwinter:** By the way, there is no such charge as gouging.

**Mr Stockwell:** Yes. There is no charge of gouging. What do they call it?

**Mr Kwinter:** In interest rates they call it usury.

**Mr Stockwell:** Usury, that is it. Okay, let's just leave it. I like "gouging" better, it is a better word. The difficulty is that somebody is going to have to give us some revenue. You can have all these tremendous plans, which is the \$1,000 free credit in the shopping, and you can have revenue—different taxes at different points in the province, which is totally unfair in my opinion, and you can go through all this theory and you can get all the information you want. Frankly, I am shocked you do not have it. I thought you would have had it, but it really does not matter. Even if you did have it, so what? We would still be losing it. We would just know exactly how badly we are being burned. Maybe it is better we do not, sometimes.

The question is, though, that somebody has to give up some revenue and it is either the feds or the province. If you are going to become competitive again, as I said before, someone is going to have to come forward and cut a deal with the federal government to reduce the tax on some of these items that are crossing, because once you are even through all this, and Mr Kwinter made the point last meeting, once you are through all these little programs and adjustments and so on, if it is still significantly cheaper, they are going to cross the border. Case closed, done. They are going to cross the border. So I would ask this minister to go see the Treasurer and make this point very clear to him, if he is not prepared to reduce some of the taxes on the hooks—and I classify the hooks as gas and alcohol, cigarettes and so on. I think those are the hooks that people go over the border for and then they happen to finish their

shopping, because there are significant changes. If it getting to the point where they are going over for cement blocks, then we have some really serious problems in the country—very, very serious problems—and this problem is going to be far bigger than any of us thought it would be.

So I would ask this minister and this ministry to go back and quantify the results of the amount of moneys we are losing. But you had better examine the fact that we are gouging them, and until you deal with the gouging that is taking place on taxes in this province, you are never going to resolve this issue. Frankly, it is a waste of our time to go around talking about this and talk about hokey smoke-and-mirror inducements and thoughts of resolving this issue when no one seems to want to look at the real issue, and that is the tax issue, how much people are paying on taxes in this country and how much they are not paying across the border. Unless you are going to make it illegal to cross the border and come back with products, they are going to continue to do it.

You can laugh all you want. If you want to go down and cross the border yourself and buy a product across the border—I know people who are going across the border and buying stereo systems, from Etobicoke, where I am from. They are driving all the way to Buffalo for an hour and a half or two hours and buying two or three stereo systems because they are going down together in a group and they are literally saving 50% or 60% of the cost of the stereo system. You cannot tell me that we are that uncompetitive because we are not as bright or we are not buying as well. There has to be something more to it and that includes the tax position. If you want to fob it off on the federal government, go right ahead. I think they are much to blame as you are, and the Liberals were, but it is not going to resolve the problem.

**Hon Ms Wark-Martyn:** I would say to the members, if we were to cut all these taxes, which services were you planning to cut?

**Mr Stockwell:** I have a list this long.

**Hon Ms Wark-Martyn:** I am very sure that you are aware of the differences between Canada and the US in our health system, in our social system, in our education system—

**Mr Stockwell:** I am very aware of it. I have a list this long, if you want it.

**Hon Ms Wark-Martyn:** —and our workforce differences that we have between the countries which explain a lot of the differences in the past.

**Mr Stockwell:** I totally understood it, but if you are not competitive, it is not going to be different for very long.

**Hon Ms Wark-Martyn:** The other things that you mentioned here for solving the problem, you talked about harmonizing with the GST, increasing the tax burden so that our people are paying more tax and the larger tax bureaucracy, all three of which were different from what you were campaigning on in the election, so I would really like to get it clear where you stand. You do not even start with your own federal party.



**Mr Stockwell:** No, that is true. I made that very clear 00.

**Hon Ms Wark-Martyn:** I think you have to go back and do some insight into your thoughts and what you are talking about. The differences between Canada and the USA are very phenomenal. The differences between Ontario and the USA are very phenomenal, and what they have and what we have. There are many reasons why people go cross-border shopping. People have to understand, and people in Ontario, people in Canada, do not mind paying tax. It is when they pay tax and they do not know what they are getting for the taxes they are paying that they start to mind. I do not hear people in Ontario saying: "We don't want a health care system. We don't want an educational system. We don't want some of these social programs."

**Mr Stockwell:** You might be right.

**Hon Ms Wark-Martyn:** In that case, they do not mind paying the tax as long as we are able to tell them where their tax dollars are going. So I think that explains a lot of the differences between the two territories when you are talking about why people are going shopping and why they are buying in the USA.

**The Chair:** Okay, I get the last word in this, if there are no other questions. There is a way that we might be able to get a handle on the amount of money that is being lost in cross-border shopping and it is not by looking at taxes or looking at the amount of money or the number of people who go back and forth. We may want to get some very clear indications of the source, the origins, of the

current account deficit, how much Canadian money is being exchanged into Canada from various locales near the border, Buffalo, Lewiston and so on, so that we know how much Canadian money is actually being spent across the border.

The second source of information that we may be able to correlate is to get an indication of how much American money is being exchanged in the peninsula area.

**Mr Hansen:** We know that.

**The Chair:** That will give us an idea of how much is then going to be spent across the border. If we looked at that in a year block, we may come up with a fairly close absolute dollar figure in the amount of money that is being spent.

**Mr Hansen:** I might just add, I have not got it in front of me, but in Port Colborne alone at one bank there is US\$150,000 a week exchanged, and you know the size of Port Colborne. That is not counting credit cards and other means.

**The Chair:** So it may be more useful to take a look at the other end of the dollar and see where the dollars are going, and how much.

If there are no other questions or comments, then I would thank the minister and her staff for coming, and if we have other further questions we will send them along.

**Hon Ms Wark-Martyn:** Thank you.

**The Chair:** Is there any other committee business? Okay, seeing no further committee business, this committee is adjourned until 3:30 this afternoon.

The committee recessed at 1124.

## AFTERNOON SITTING

The committee resumed at 1536.

**The Chair:** There is a quorum here, we have a member from every party, so I think we should begin this afternoon's hearings with Mr Winter of John Winter Associates Ltd, if you would like to begin, please.

## JOHN WINTER ASSOCIATES LTD

**Mr Winter:** Good afternoon. My name is John Winter and I run a small consulting company. In the past couple of years we have been commissioned by a number of municipalities to look at this cross-border shopping issue, and so we have assembled, especially over the last year, a considerable amount of data about it. I have summarized it in a small handout that I brought with me today. I would just like to hit some of the highlights of the cross-border shopping data that we have and draw some issues and conclusions from them.

The topics that I would just like to run over briefly are the consumption patterns, what patterns you find shopping from the border; why have we had such a very rapid, catastrophic, as it were, increase in border shopping over the last few months and why is it increasing exponentially; a few comments on why we cannot here in Ontario apparently sell for less than they are doing in the United States; look at one or two economic consequences of cross-border shopping, and conclude with a few issues and some suggestions from my perspective that I have on this issue.

On page 2, I have a typical distance decay factor. Border shopping changes as you get away from the border. There is the convenience zone where it is a way of life. People do it because that is the way it has always been done in the border communities. The farther you get away, the less propensity there is for people to travel for gasoline or for beer or for everyday groceries and the greater propensity to shop for things like clothing and other larger-ticket items.

One of the discouraging things we have seen in the last year has been people willing to travel from major cities like Toronto down to Detroit, picking up very low-cost electronics, for instance, and then shipping them back to Toronto and being able to do it at a price that is a fraction of what we can actually buy them for in the stores here.

Then a year ago I defined a zone that was about 90 minutes away, which was protected by distance. It was what I called the zone of happy retailers. Unfortunately, the way things have gone in the last year, there are very few of our cities in Ontario that are actually protected now by distance. People are willing to travel farther to go after these bargains, and that is part of the problem. Indeed, I summarize that at the bottom of page 3. The trend that we have seen in the last year, notably in the last six months, is that people are willing to spend more when they go across and they are also willing to travel farther, and that has changed the problem.

We know how people are spending their money at 15 minutes from the border, half an hour, one hour, an hour and a half, and because we know how many people there are in those zones, we can multiply through and get a

reasonable estimate of how much money is leaking out of this province, escaping our retailers.

I did the projection six months ago. Today it is already out of date because of the changes that we have been seeing, the rapidity of these changes. And if we do not act as a province, I anticipate that we will be losing another about \$1 billion out of this province this year in retail sales in all types of retailing, including restaurant meals. That need not happen of course if some policies are implemented, but it is not going to be easy, because there is no one simple explanation of why this is happening, there is no one force behind it, and if that is so, then there is no simple solution to solve it.

Let us look at a border community where I have the latest data, and it is on page 4. I try to address the question of why a very rapid recent increase in cross-border shopping. It comes from Fort Frances, an isolated community towards the northwest of Ontario, and it has a sister city across the border, one minute away, International Falls. They are both isolated by distance. The difference in price on one side of the border is incredible compared to the other side of the border.

The middle picture on page 4 shows the average national commercial—that is, residential, normal population—retail price collection that was actually declared at the border. That does not include smuggling, of course. You can see it has gone up rapidly and it has gone up exponentially.

Now, there are a number of reasons why this may have occurred, but there is no clear relationship.

First, some people declare that it is due to free trade. Well, if you have a look at the shape of that increase, when free trade began, we did not see a sudden increase in cross-border shopping; it took time. Indeed, one of the factors coming out of some of our surveys is that people were expecting lower prices. So we had a very divisive federal election on free trade and they were expecting lower prices in the stores. Those lower prices may come in 10 years' time, but they were expecting them now and they are taking them now. They are taking them across the border. They appear to have been somewhat disappointed that they did not see these price reductions. One of the great accomplishments of the free trade agreement to date may have been the fact that the guilt has been removed from the cross-border shopping issue. "Hey, we've got free trade. Why can't we just go across there and buy?" Indeed, where are our economic nationalists at the moment, who really need them in this province?

Another reason that is put forward is the appreciation of the Canadian dollar. At the bottom of page 4 you can see the pattern. It has increased in value over that period but again there has been a lag effect. It has not suddenly caused a great increase in shopping.

One of the factors is that the appreciation of the dollar has given a sort of discount coupon to everybody who goes across; they get a discount. The higher the value of the dollar, the less it is going to cost across the border. One of the discouraging things from the surveys is that when you get an 87-cent, 86-cent dollar, people are doing much



fewer calculations than they did when they had a 75-cent dollar. They did all the calculations in their head. They seem to be perceiving an 87-cent dollar as much closer to parity than with the 75-cent dollar that we had very recently.

Another reason that is put forward of course is the recession. As we have sunk into recession, and there are some of these border communities that have been very hard hit with the loss of jobs, it is only natural that people start thinking about the price that they are paying in the stores. There are massive structural changes going on in our economy at the moment, and there is a great deal of anxiety out there. Indeed, there is a great deal of anxiety with the retailers. We never hear about the anxiety of the retailers. We hear about consumer anxiety, but, my goodness, those retailers in these border communities are really hurting. So this recession has spurred the trend to the lower prices.

And of course people feel foolish. Nobody likes to pay more than he really should for a commodity. You talk to your friends and they say, "Oh, I bought that for half the price." You feel like a real dummy and nobody likes feeling like a dummy, especially for things that are essential for your way of life.

There are three additional forces which I highlight on page 6: first, the goods and services tax imposition. We have already seen there has been a jump of about 15% nationally at the border crossings in January. When we asked the question, "Will the GST encourage you to do more shopping in the United States?" we got a considerable number of people who said yes, it would. So there has been in the first month and the second month of this year an absolute disaster in retail sales, and one of the reasons why, I think, is that more consumers are going across the border. The GST had a really negative effect on border communities.

I would like to bring your attention to the fact that when we last looked at the Sunday shopping issue on a very comprehensive basis, in the Ontario Law Reform Commission report in 1970, the New York stores were not open because of the blue laws. They are open on Sundays now. I show in my documentation on page 5, in the middle diagram, that the major new regional mall out in Cheektowaga, Walden Galleria, advertises in our markets: "Hey, you guys are closed. Come over and shop with us," and there are some new attractions going into the Buffalo area. One of the most attractive stores in the Windsor area, the Pace Warehouse, is coming into the Niagara area. Wal-Mart, which is the most aggressive retailer in the United States, is also arriving, and there are plans for a casino in Cheektowaga that will again attract some of our consumers away. One of the attractions of going from Thunder Bay to Duluth is that the Indians run a gambling casino right across from the major malls, so there are a number of other things pulling people across, and it looks as if the attraction of the Buffalo area, which has absolutely nothing but some lumped merchandise and good chicken wings, is going to be increasing.

I think there is a very important question that we have to ask in all this: Why cannot Ontario sell for less? There are a number of points that I would like to bring up about this whole matter. First is the gasoline issue. Of course, as you

know, it is provincial taxes. Second, there is the whole marketing board issue. It is quite remarkable if you compare and contrast prices on both sides of the border. In Canada you can get this little turkey. Let's say you are a family and you want to put some food on the table, have a great Thanksgiving dinner. You can have a little turkey or you can go to the United States and get a humongous turkey and it is the same price, and people being who they are, they would like to be good providers at Thanksgiving and at other times. Those issues are already well known.

I would like to focus on a few costs of doing business, because those too are important. First, it has to be pointed out that the Niagara area closest to us is one of the great dumping zones in North America. If you are a manufacturer, if you are a retailer, you are not going to dump in New York City or in Los Angeles or near Chicago; you are going to get rid of that merchandise, if you have to get rid of it, if you have seconds and ends of lines and things, in border communities like Niagara Falls. So this is one of the great dumping zones in North America. A lot of our consumers, of course, are attracted over for the prices of the seconds.

Rents, for instance, are much lower in the United States. They do not have an Ontario Municipal Board to restrain the enthusiasm of developers. In Fort Frances-International Falls, for instance, about a third of International Falls is currently vacant, and of course you know what that would do to rents. Indeed if you were to set up a retail store in Fort Frances, you would probably be paying 50% more than your competitor across the border before you even open the door.

#### 1550

One of the interesting points, I think, is on page 9, municipal taxes, because our municipal taxes are considerably higher than those in the United States. I have a comparison of what supermarkets pay in International Falls and Fort Frances. You can see the tax burden is certainly onerous on Safeway compared to its competitors. No wonder its competitors can their ketchup for somewhat less than Safeway.

When you have a look at the net municipal operating costs, a resident in Fort Frances of course pays considerably more than in International Falls, but what is never pointed out in some of the commentaries is that our residents get considerably better services than in the United States. If you have a look at Fort Frances and International Falls, we have a professional fire force; they have a volunteer fire force, with all the attendant costs that raises. We have a larger police force. Although they have a much smaller one, they have more cruisers, typically, being American. You have a look at the roads, you have a look at the street lamps, and the standard of municipal services is much higher. But then of course the taxes are much higher, and those taxes somehow ultimately get on to the cost of doing business.

I think the point at the very bottom of 9 is extraordinarily important. We have great strengths as a province, but those strengths are not exportable. We have higher municipal standards, we have health insurance. Why are OHIP cards bootlegged in US border cities? Because they want to come over and get some free OHIP services. So our strengths are



not exportable; their strengths are exportable. They have lower costs and they can export their ketchup and their goods, and our consumers take advantage of this.

In tough times, when you are worried about your job, you want to feed your family, it looks very attractive to go over and getting those humongous turkeys rather than a tiny one at the Safeway store, and we tend to forget how good our police force is or our fire force or our drains at times like that.

There are a number of other reasons. We have higher taxes, we have higher regulations, indeed at times we have higher labour rates. With all those higher costs, if you look at the middle diagram on page 10, it is not really surprising that there is not just a small gap but an enormous gap between a basket of goods sold in International Falls and a basket of goods sold in northwestern Ontario.

One of the things that I want to draw your attention to is that the costs of goods in Canada appear to be much higher in many cases than they should be or they might be. Quite often we are finding the wholesale price in Canada is much higher than the retail price in the United States. This is a phenomenon; I do not totally understand it myself. I do not understand why, for a vast range of products, we cannot buy even close to what the United States retailers can buy for.

If you think of retailing, the major cost is your inventory cost. It may be two thirds, it may be four fifths of your total operating costs. If your retailer starts out paying double what a comparable United States retailer will pay, it is obvious that the guy is not going to be able to shave anything off the prices, and so your prices are going to be higher and his are lower. I give some examples of televisions, watches. I give another example in the footnote here of Pepsi, comparing International Falls and Fort Frances. A case of Pepsi costs \$6 to \$7 in the United States. In Fort Frances the normal retail price is \$17. What is this? Consumers say to this, "Hey, we're being ripped off," so they go across the border and they buy their Pepsi across the border.

There is a small Xerox here from the Fort Frances Times of 20 March. We have an enterprising retailer in Emo, which is just to the west of Fort Frances. He goes across the border, buys the Pepsi at a normal retail price and tries to put it on sale in Canada, but of course he cannot do that because he does not have any French labelling on the cans. The Ministry of Consumer and Corporate Affairs comes along and tells him that he cannot sell it any more. So he goes back to selling the pop at the inflated prices.

Now, what does the consumer see? The consumer sees outrageous prices for Pepsi in the store, but it is not the retailer. One of the things I want to get through in this presentation is that it really is not the retailer taking the abnormal profits here. The retailer is paying, off the truck, about \$16 for a case of Pepsi. He puts it on sale for \$17 and, my goodness—oh, I thought you had a question.

**Mr Jamison:** I will wait till you are finished.

**Mr Winter:** Oh, thank you. So again, the consumer says: "Ah-ha. We're being ripped off by the Canadian retailer," so he goes across the border to shop. But it is not the retailer in the vast majority of cases doing these inflated

markups. It is somewhere back in the system. I do not understand totally how back in the system this is working but time after time, for necessities as well as for more luxurious goods, we are paying more than the United States. Indeed, it is not just fractionally more. On page 11 I have a price comparison of some 250 brand names compared to Fort Frances and International Falls, and you can see that there are enormous differences in price. We have talked a lot about unleaded gasoline, but look at the difference in price of Pepsi and other commodities.

So these consumers who are going across the border are certainly not wrong. There is a major difference in price.

**Mr Phillips:** I am sorry. How do you read this again?

**Mr Winter:** The one on page 11?

**Mr Phillips:** Yes.

**Mr Winter:** We were comparing Fort Frances prices and International Falls prices, the per cent difference in price, and International Falls usually, when the line is above zero, that indicates the per cent of Fort Frances prices that are higher than International Falls. So unleaded gasoline may be 60% higher, Pepsi may be 150% higher. Those are just a few brand name commodities we were able to find in Fort Frances that were somewhat not affordable across the border.

**Mr Phillips:** I see. So that 250 is along the bottom.

**Mr Winters:** The 250, yes. They have been ranked from the lowest to the highest, so it is indicating that it is just a nickel-and-dime issue here. There are enormous differences in prices, and this is what is attracting the consumer.

**Mr Phillips:** It looks, on average, of those 250, there would be an average 50% higher.

**Mr Winter:** Oh, at least, and you would need a massive change in the Canadian dollar if you were going to try to wipe that difference out just by the dollar. It is not just a little change that is needed; it is an enormous one. And we can only see one hopeful sign in all this.

**Mr Phillips:** Where is it?

**Mr Winters:** You never hear a comparison between Eaton's prices and, let's say, a comparable store to Eaton's like Hudson's in Detroit. You always hear the comparison between Eaton's or a full-line retailer and a super market counter or a warehouse store. Finally, in the Toronto area we are getting the warehouse outlets. I believe there are a lot of outlets of Price Club here already. Cosco from the west coast is coming in. In those warehouse clubs, we are starting to get prices that are comparable to those in the warehouse clubs in the United States, and I have a comparison, for instance, on page 12. At an Ontario supermarket for Heinz ketchup, you might get seven fluid ounces for one Canadian dollar, whereas if you went across the border to a normal supermarket you might get 13 ounces, almost double the volume. But if you went to a warehouse club and bought your Heinz, then you would get almost three times the volume for the same dollar. We are starting to get this in Ontario, but we are 10 years behind the United States almost, in the warehouse sector.



Now, my question is, by the time we catch up, are we still going to have a reasonable retailing sector left in the border communities? Unfortunately, these price clubs, these warehouse clubs, are not going to do anything for northern Ontario, because they need a certain threshold of consumers to support them.

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Economic consequences of cross-border shopping involve a loss of sales taxes, loss of jobs, and then jobs of retail spiral backwards throughout the economy, so you see something at wholesaling or in farming or in manufacturing elsewhere in the province, so it is a vicious circle. At the retail store, once you see your consumers dropping off, you cannot afford to have the same amount of inventory. Your attractiveness falls and that too goes into a vicious spiral and you lose more sales. So the implication of this exponential increase is that we are going to lose more retailers in border communities, and if you talk to the mayors—let's say Bill Smeaton of Niagara Falls, the man is going out of his mind. There are terrible economic conditions down there at the moment, and you can understand why, because in a recession you want to get the absolute best value. I say, do not shoot the retailer in all this. It is not his fault, largely. It is the inefficient economic distribution supply system behind the retailer that is causing many of our problems.

You see, it is poised to get much worse. On page 13 on my second diagram, the leakage out of the Toronto market is about \$200 million a year, but that survey was done three months ago, four months ago, so it is probably quite considerably out of date. All you need are two people to shop every quarter, and bang goes half a billion out of our retail system, to the detriment of Ontario retailers.

That summarizes my review of the data that we have at hand and the trends and some of the information that comes from these trends. Todd asked me to run through a few issues, as I see them, so I would just like to highlight a few of those issues.

There is no panacea for these problems. There is no quick fix. It is not going to get better soon and it is not going to be easy to stop the flood. Everything seems to be going in the favour of the US retailer and there are many barriers with the Canadian retailer. Of course, as you go down Interstate 75 out of Windsor, down to the suburban shopping centres, you do not see some of the problems in the black ghettos of Detroit, where without a government insurance plan they have an infant mortality rate that is as high as Haiti's. So you could argue that they should have higher prices, but they do not. It seems to me that the Ontario retailer and the Ontario government is getting the worst of both worlds. You can escape these higher prices in Ontario very easily.

I do not think, for the second point, that time is on our side, because in these things the pendulum swings one way and it swings the other way, but at this very moment it has gone viciously against the Ontario consumer and the Ontario retailer. I think it is going to take time, and what level of damage to our communities of Windsor and Niagara Falls and Chatham is acceptable? Are we going to say, well, 20% vacancy in our stores is acceptable? Is it 30%,

40% vacancy? What level of vacancy for the small Ontario retailer, who is the backbone of Ontario communities? What level of damage is going to be acceptable if we let some of these trends continue?

I think there is no alternative but to clamp down at the border more than we have been doing. I think it is ridiculous to speed up Canadian consumers so that they can buy more easily in the United States. I think the border communities are a very strange amalgam because they have economic and social links both sides of the border, but I think that for the remainder of our major markets, London and Toronto and other markets, we have to protect those retailers, and also move towards lower prices in our stores. One of the big issues in my mind is, why are suppliers charging more to Canadian retailers than to United States retailers? Why does MacMillan Bloedel charge considerably more for wood in Thunder Bay than when it sells to Menards in Duluth. Indeed, you are getting remarkable movements of the lumber up there, and sometimes the lumber does not even go out of Ontario but gets sold at US prices to special people.

I think it is remarkable that retailing has become such an international service. But those retailers in Buffalo and near Chatham and in Duluth really are not serving our communities well. We too often see retailers taking money into their tills, but Ontario retailers give a lot back to the community in many ways, if only just in subsidizing the little leaguers and sending the hockey teams out and all the rest of it. You do not get anything back from those New York retailers. They have other agendas.

I think also there is an issue for the retailers both in Ottawa and closer to the Manitoba border, because you are getting a lot of flow out into Quebec and/or into Manitoba because you can beat the provincial sales taxes by buying in another province and then getting a rebate of taxes back. I would suggest that you also, in this whole issue, look at that phenomenon.

Todd also asked me for some ideas towards an amelioration of this issue, and I think it goes without saying that you cannot do anything alone as a province. It is going to need some type of co-operation with the federal government. I think that one of the great things that would stop the daily or frequent shopping trips across the border for milk and cigarettes and just to fill up your car would be a levy on the passenger cars at the border. It seems to me that you pay a levy if you go by plane. It seems to me that if you are driving a commercial truck you have to pay a levy, and I do not see why the consumers and their cars should not have to pay for the service of going through customs. Indeed, that would help to cut down the frequent trips from the border communities. That would be one of the great things that could be done.

I also think there should be some co-operation with the federal government so that they impose provincial sales taxes. I do not see why this province should lose the sales tax potential at the border, if only because it is bound to come back on to me as a consumer somewhere else. If you do not get it at the border, if it is going off to New York state, then you will put provincial taxes up somewhere else. It would be very easy for the federal government, as



it does its little calculations—"Oh, that is 10% duty, and we are going to add the 7% GST"—just to add another factor of 8% on to the bill and remit that to the Ontario government, because that too would help slightly to balance the equation.

I think there needs to be better vigilance at the border and I think that one of the key things is that retailers in this province have to be able to buy at more competitive rates. I am not sure what that is going to take, but I cannot understand why consumer good necessities cost so much more here in Ontario than they do in the United States.

**Mr Kwinter:** I have some questions and some comments. First of all, I want to thank you, John. It is kind of nice to see some of the figures. I cannot attest to how accurate they are, and I am not questioning whether they are accurate because I am just taking your word for it. You have done some work, and someone may come up and say these are not the right figures, or another figure, but at least—

**Mr Winter:** They are probably higher today.

**Mr Kwinter:** Yes. Well, what I am saying, at least there are figures and at least there are some of the things that we have been concerned about that have been addressed. For example, what is a protected distance? I am pleased to see that effectively there is no such thing any more in Ontario. Given the differences, 90 minutes from the border is just as attractive as 15 minutes, not on a daily basis but certainly on a weekly basis.

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**Mr Winter:** Or on a frequent basis, yes. There are very few locations that are really protected any more in Ontario. Perhaps Peterborough might be one of the last ones. If you think of Canada, there are very few cities, Chicoutimi, there is Newfoundland, of course, and there is Edmonton, and I cannot think of many others that are protected by distance. Our perception of distance has changed quite radically, I think, in the last year.

**Mr Kwinter:** I think there is another point that you brought home that I had not really focused on, and that is that we seem to think about cross-border shopping as just going to the United States. That is where the greatest benefits are, but there are certainly whole areas of Ontario where cross-border shopping is a way of life into other provinces.

I have travelled extensively into Kenora, Thunder Bay, Rainy River, Fort Frances, and I was stunned the very first time I went there that their total orientation is to Winnipeg. When they said, "We're going to the city," I just assumed they were going to Toronto, given the fact that I am a Torontonians. I figured that if they said they were going to the city, that is where they were going. They said: "Toronto, are you kidding? No, we're going to Winnipeg."

The daily paper is the Winnipeg Free Press. You cannot get the CBC, even before it shut down the stations. In Rainy River the only Canadian channel you get is channel 11, for some reason, Hamilton. I could never figure out why, but whenever I go up there and turn on the TV set, it is all American or Manitoba, with the exception of channel 11. Even before the GST and the escalation of the Canadian

dollar, because of the sales tax and because of the proximity, people were going to Winnipeg to get their things.

As a matter of fact, we had a situation in Ontario where a few years ago we had an ice floe wipe out the community which is now called Peawanuck up on Hudson Bay wiped out the whole community, which was only houses, and they were replaced by a Winnipeg company because it was much closer than any Ontario company get there. So those are some of the problems.

The other thing that concerns me, and I do not know how you tackle it, is that when you talk about the strength that we have in Canada or Ontario not being exportable whereas the strengths that the Americans have are their weaknesses are not, that is precisely why we have this problem. You hear the old cliché, "It's a nice place to visit but I wouldn't want to live there," and that is what is happening. People are paying their taxes in Ontario and getting the quality of life that they want, but they are trying to then sort of offset that by buying cheaper things in the United States, which means that where they live they pay their taxes, but they want to minimize the impact of that then going to the United States, taking advantage of cheaper products so that the impact is not as great. I do not know how you deal with that. Do you have any ideas?

**Mr Winter:** I think you have to emphasize that quality of life is partially dependent on the price of the goods. When we are paying Ontario taxes, we are paying GST. That is 15% there that is helping to pay for the social services that we all like, and that is part of living here in Canada. I obviously you can escape it, individually you can escape it. You do not have that collective attitude, "Well, we must spend our money here." It is wonderful when you do the surveys and you start talking to perhaps 5% of the people who say: "Oh no, I would never go across there. I live here in Ontario. I must spend my money here."

**Mr Kwinter:** As a researcher, as a sampler of public opinion, do you really believe that is saleable? It would seem to me that if you did a survey and asked people "Why do you go to the United States?" their answer would be virtually unanimous. The other things are fringe. They would say, "Because I can save money."

**Mr Winter:** That is right, and that is why I believe we have to clamp down as much as we can at the border because it is going to get worse. Why should we pay three times the price for Oshkosh children's clothing? Indeed, why are we paying three times the price for Oshkosh children's clothing?

**Mr Kwinter:** Can I ask you another question, because that concerns me. The one solution that you see is the proliferation of Price Clubs and Cosco as being a possible solution in the more populated areas, but not in the north because it does not warrant it.

**Mr Winter:** That is right.

**Mr Kwinter:** Okay. I just wanted to make sure that my premise is right. I see that as trading one devil for another. I will give you an example.

I have a place in Florida. When I was down there for Christmas a company—it is not like a Price Club or Cosco. It is supposedly a drug store, but it sells everything



om chicken soup to furniture. It is called Phar-Mor. They  
ive stores that are 100,000 square feet in size and, to  
scribe it only one way, they are mind-boggling when  
ou walk into them. When they announced they were con-  
structing one in the neighbourhood I live in, the local mer-  
chants got a petition to try to stop them. They said: "There  
es our business. If Phar-Mor locates, we're done."

I think one of the problems we have is that if you feel  
e only solution is to have the Price Clubs and the Coscos,  
en what you may really be doing is shifting some of the  
usiness away from the United States to these American  
ores that are now located in Ontario or anywhere else in  
anada, but you are not in any way addressing, and probably  
mpounding, the problems of the small retailer. Those  
ho have a conscience or whoever you have been able to  
ll this story, "Hey, every time you go to the United States  
ou're doing your neighbour out of a job or you're doing  
yourself out the quality of life," will now be able to do the  
me thing in their backyards or in their neighbourhoods to  
e detriment of the small, independent store. How do you  
eal with that?

**Mr Winter:** I believe you are quite right. Probably a  
umber of the very small, independent retailers' days are  
umbered. We have far fewer today than we had 30 years  
go when I came to Canada.

Second, I think the solution for northern Ontario is to  
ource out of neighbouring states and not out of Toronto,  
ecause the cost of actually bringing or hauling merchandise  
to Toronto and then shipping it up by CN to Thunder Bay  
points north of that is so enormous that people should  
e able to reorient their buying patterns and buy out of  
linneapolis or Duluth or other US cities. But that pattern  
f trade has not established itself yet. When you talk to the  
mall retailers, one of the problems is that if they are not in  
buying group, they cannot buy in sufficient volume from  
ie US wholesalers and warehouses to make it worth their  
hile to put French labels on and get the CSA approval and  
l the rest of that stuff to bring it into northern Ontario. So it  
l gets funnelled down here through Toronto and then way  
p there, with all the attendant costs that are associated  
ith that.

**Mr Sutherland:** I just want to ask you a couple of  
uestions. First of all, I thought your presentation was very  
ood and very thorough in outlining the issues we have to  
y to deal with. You mentioned the recession and spoke  
out older consumers and unemployed Ontarians being  
onsiderably more attentive to prices paid in the stores.  
ne of the surveys we had indicated, though, that the  
igher the income you had, the more likely you were to be  
ross-border shopping. I am just wondering if you can  
concile that with your statement here.

**Mr Winter:** Yes. If you are from the Toronto area,  
ou are probably more likely to travel and pay the gasoline  
nd make those big purchases all at the same time. When I  
as writing that, I guess I was thinking about the union  
uys in Fort Frances who have been laid off whom I have  
lked to, and people in Welland, the economy of which  
as just been devastated. Those people are concerned  
out the price of necessities. There was a bank manager I

talked to in St Catharines. A couple of years ago he used to  
change \$10,000 of US currency a month and he is now up  
over \$250,000. So what are the people doing? They are going  
and they are taking their paycheques, cashing them, getting  
US dollars and off they go to buy their basic necessities of  
life because they cannot get those types of prices in Ontario.

**Mr Sutherland:** Do we have a sense then that it is not  
only the people who are laid off? It may be some of those  
people who are working in some of the vulnerable areas  
right now, manufacturing, who are still employed but are  
still concerned. So they are also going across the border,  
even though they are still employed.

**Mr Winter:** I think there is a deep-seated anxiety at  
the moment about where our economy is going. That is  
very prevalent in some of these border communities that  
have been hit, Windsor for instance, with a loss of jobs and  
things like that.

**Mr Sutherland:** Mr Kwinter mentioned the advertising  
campaign. I was wondering if you could comment on how  
effective—I mean, all of us being politicians and watching  
some of this stuff and realizing what goes on in elections  
and seeing what went on in—you know, when you watch  
some of the commercials for American elections how  
hard-hitting they are. I am wondering, with that type of ad  
campaign, whether you think that will have any impact.

**Mr Winter:** Well, no, because consumers are not stupid.  
They are not dumb, they know that prices are considerably  
lower there, so what are you going to say, "Shop here,  
please"? They will just continue shopping over there. I think  
you have to put some barriers in their way. I think you  
have to put the provincial taxes on as they come back over  
the border. Perhaps that will slow up everybody at the  
border another 15 minutes. That would be good too. Until  
we can change the retail system here in the province, it is  
going to take time. I do not think you have the time. We  
have talked to the small retailers in the border communities  
and they are weeks, if not days, away from bankruptcy. So  
what do you do?

**Mr Sutherland:** I know you have made some com-  
ments about the Sunday shopping issue and how it affects  
border communities. This may be outside your parameters;  
it may be the sociologists who need to comment on this.  
But I find it intriguing, in a lot of the surveys about Sunday  
shopping, about shopping being a family activity. I worked  
in a grocery store for seven years and packed many  
peoples' groceries, a regular occasion, and I want to tell  
you, I was never left with the impression that it was a great  
family activity to go shopping.

**Mr Kwinter:** Not to a grocery store, but to a mall it is.

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**Mr Sutherland:** I guess my comment is, if that is the  
extent of what we consider a great family activity in this day  
and age, then I think we have some larger-scale problems  
as well.

**Mr Winter:** First, I do not want any one-upmanship  
here, but I worked 10 years in my uncle's grocery store and  
put myself through college doing that. I will agree with you,



for the food, the drop-in convenience items, men do that more frequently than ladies.

Second, I have a bias here because I am the vice-chairman of my local business improvement area in the Beach. It is very serious down on the Beach if we are closed on Sundays because a quarter of our sales are done on Sundays, so I have a bias towards that. Third, I have seen the surveys that have been done relatively recently by International Council of Shopping Centers, ICSC, the shopping centre people in New York, and it does appear that people shop together. It is something you do in the big malls with family and friends.

**Mr Sutherland:** The other issue you talked about, the Price Club and Cosco, I think four to five years ago we also had some Price Clubs. I believe Titan was one of them. That was around. They came on to the market but seemed to disappear very quickly. I do not know whether you are familiar with them and what happened to them, whether it was just strictly bad management. But if you look at that, the track record of that type of warehousing does not seem to be that great, or is it just that things have changed that much now that you figure their prospects are better?

**Mr Winter:** I think they are run better. In retailing, we always have to look at management, because it is a tremendous management feat to actually run a retail store, especially one of that size. I think they have better capitalization. They are now run by the Price Club out of the United States. The point I would like to make is that they are not really retailing; they are investment banking. They turn their product so fast that in 20 days they get 90 days' credit and they are making points at the bank. That is why they can make it so cheap in the store.

**Mr Sutherland:** Just one final question. You talked about where all the economic nationalists are and I guess my basic concern is, do you not feel there is a way we can get the message out to people that you cannot have your cake and eat it too, in terms of all the benefits you receive of living here and the quality of life and lower crime rate and some of the things you mentioned about better health care, lower infant mortality?

**Mr Sterling:** Wake up and smell the coffee cake.

**Mr Sutherland:** That cannot be sold to people in terms of any type of aggressive advertising campaign in selected border communities or throughout the province? I mean, we have the Madison Avenue whizzes who are making all these people go out and buy it and appeal to people to go across the border with their effective marketing campaigns. Are there not the effective marketing campaigns to keep them here?

**Mr Kwinter:** Yes, the bottom line is price. If it was higher you could not do it. You have to use a marketing campaign to try to convince people to spend more money than they have to spend somewhere else. You do not need a marketing campaign to get people to go and pay less.

**Mrs Sullivan:** If you can buy a \$40 shirt for \$7.99, the same quality, same merchandise, 15 minutes from your home, how are you going to counteract that?

**The Chair:** We have a long list here.

**Mr Stockwell:** Did you want to answer that, by chance?

**Mr Winter:** I do not know.

**Mr Kwinter:** Let's try everything. The sales thing is going like that, the leakage is going up exponentially, try everything.

**Mr Jamison:** I have a number of questions for you if you will bear with me, I would like to walk you through them. The first one, for the committee's purposes, really am asking you to expand further on the list of 250 products if you can give us more information on the particular goods that showed the two examples, gasoline and so on.

I am concerned also as a representative retailer in the retailing sector. You are not aware of where these price differences developed and seem to be thoroughly confused about the large differences on some very basic items. I think it is important that this committee consider that and take a look at why those price differences exist. That is why I asked you to give us as many examples as you could so that we can really look at.

Of course we realize there are a number of factors contributing to the problem we are experiencing, but in your presentation you mentioned the GST and you mentioned a 15% jump in the volume of cross-border trade. Really. How did you arrive at that? How were you able to arrive at that particular equation?

**Mr Winter:** Canada Customs counts the number of goods. Statistics Canada puts it together and published about a week ago the increase in trade from the previous January. So it jumped quite significantly in January. People were very, very angry about this tax.

**Mr Jamison:** Do you find that people are continuing to show animosity towards that particular tax in that manner?

**Mr Winter:** I think the federal government got off the hook very nicely because there was a war, and that diverted consumers' attention. By the time the war was over we were two or three months down the road and the fiasco got off the GST.

**Mr Jamison:** This was just more or less another kind of...

**Mr Winter:** Puts up prices, yes.

**Mr Jamison:** I would like to turn my attention basically to interest rates, and I would like to ask you a question that really reflects the cost of doing business in that fashion.

**The Chair:** I am having a little trouble hearing.

**Mr Jamison:** —that asks you to point out the difference in cost, if you can, of doing business with an interest rate that is lower in Buffalo, as far as a retailer is concerned compared to one that would be in Niagara Falls, for example. What effect would the spread have right now?

**Mr Winter:** Well, the effect has the spread, if you are building space, that it is going to cost you more because your mortgage rates from the bank are going to be considerably higher. And then a retailer always has to carry inventory, so he gets a loan from the bank at our rates rather than their rates and of course that puts up the prices. Well. There is nothing magical about this. It is very simple.



You have your costs, you have your small markup to cover your risk and make a profit and at the bottom fall your prices of your goods—higher costs, higher prices.

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**Mr Jamison:** In your presentation there was a discussion about whether it is saleable to start programs that would promote "shop Ontario" or "shop Canadian." In my experience, and it is limited as far as shopping cross-border, I am aware there is an ongoing campaign in the United States about buying made in the USA. That campaign, when I have had the opportunity to talk to people we are connected to about that, is seen over there as being successful, is seen as flipping a switch in people's minds. We have neither a federal campaign to really speak to that issue nor a campaign of a similar nature provincially. How do you feel about that?

**Mr Winter:** As I said, I do not think there is any one solution and I think we should try everything, but it still will not address the fundamental issue that things cost less here. I think we have to address that issue and move towards solutions of why suppliers seem to charge more in Canada than in the United States, not just more, but considerably more, in certain areas. The other thing is that I am not a representative of the retailers so I am not—

**Mr Jamison:** Well, I am not saying that.

**Mr Winter:** I think you will have Mr McKichan next week to talk to. He is the retailer.

**Mr Jamison:** Yes. Okay. Again, all of us have certainly had this concern on our minds for a period of time. I found, when I talked to people and really went through the whole conversation about why you would cross-border shop, that the obvious reasons were there but there were also some underlying reasons. I have had a number of people really talk to me about customer service and customer satisfaction. Some people have said, "Listen, I not only go over there and shop and buy what I want for less, but I seem to be appreciated over there more than I am in my own home town."

**Mr Sterling:** That's only since you were elected.

**Mr Jamison:** Having been rudely interrupted, I find that to be a concern to me because maybe people are really handling that end of business differently. I know there is a strong drive on to have cross-border shopping continue as far as Buffalo and those relative communities are concerned. What do you feel about that?

**Mr Winter:** Again, Thunder Bay is making a very concerted effort to improve customer service in the stores. The chamber of commerce has a big program at the moment to encourage better service. I know when I checked in the small town of Fort Frances I was quite astonished by how good the customer service was. The retailers knew everybody by name, they greeted them, they were attentive, they complimented them on their purchases. I do not see how in some of the smaller communities you could get much better.

Of course retailing is not just price, but I think the motive of driving people across is first price and then selection and then there are all these other reasons. One of

them that turns up, but not as frequently as selection and price, is service. Yes, we have to improve. We are in a competitive environment and the more we can do to improve customer service, as well as other aspects of retailing, the better.

**Mr Jamison:** Just a final comment. I found your comment on the value of the Canadian dollar as opposed to the dollar in the US interesting. What I found interesting was your opinion that people now do not even stop to do the calculation in their minds; they know it is close enough to being equal to them that there is not really an assessment; it is taken for granted that there is a saving. In some cases there may be and there may not be, but again, it is something that is in their minds. Having said that, those are my questions.

**Mr Phillips:** May I just ask three or four questions for clarification and then a fairly large one. On page 3, the \$1 billion, what percentage of retail sales would that be in Ontario?

**Mr Winter:** Well, last year Canada did about \$180 billion in total. Ontario is 43% of Canada, so whatever 43% of \$180 billion would be—somewhere about \$70 billion or \$80 billion.

**Mr Phillips:** It is around 1.5% or something like that.

**Mr Winter:** That is right, but where is it concentrated?

**Mr Phillips:** Right. On that share lost to International Falls, the knife, fork and stuff, is that grocery sales?

**Mr Winter:** I am sorry, that is restaurants. The groceries are—

**Mr Phillips:** The 12.5%.

**Mr Winter:** The 12.5%.

**Mr Phillips:** Right. The price comparisons, the 250-item thing, were you comparing Canadian prices to a Cosco, Price Club type of thing?

**Mr Winter:** One of the problems with International Falls is that there are a number of aggressive discounters there such as K-Mart, which is certainly far more aggressive in the United States than it is here, so there is an enormous K-Mart crossing. But there were also comparisons in the supermarkets of brand names, Campbell's Soup there, Campbell's Soup here, brought back on to the same volume basis, because sometimes their cans are a little bit different.

**Mr Phillips:** I take away from that a 50% higher price in Canada than in the US on the 250 items.

**Mr Winter:** About, yes.

**Mr Phillips:** On page 12, on the Nintendo and the prices and what not, are those Canadian organizations sourcing that product in Canada, do you think? Or in the US?

**Mr Winter:** I believe that they would be sourcing the Nintendo from overseas, because it certainly has a French label on the box. So they are probably sourcing it from somewhere else. Very few retailers in Canada source from the same place. For example, Sears Canada does not source from the same place as Sears USA, unfortunately, because if it did, we might be able to get some of their volume-buying discounts.



**Mr Phillips:** My big question is one that I think the Ministry of Industry, Trade and Technology also was recommending when it was in here, and that is a concern about kind of one of your solutions. And by the way, I thought this was a very thoughtful presentation and very helpful to us, and really in an understandable form. I really appreciate it.

My concern is that I sense a growing feeling that maybe a fast way to help the retailers out is by perhaps increasing the sourcing from the US somehow or other. I am quite concerned about that, because I think we will find, as a committee—and one of your recommendations is to talk to suppliers—if we got Pepsi in here, it would be able to go item by item all the way down and show why it costs that much more for it to make its product here in Canada than in the US. Indeed, I dare say that a huge part of our food processing business, if it had its druthers, if it could without any muss or fuss bring the product in from the US, would be bringing it in. I am personally concerned that we have to be careful in tackling this immediate problem of retailers and cross-border shopping that we do not look to a solution which moves a lot of our manufacturing out of here to the US. We source for their Canadian retailers out of the US and then we find, lo and behold, it has impacted tremendously on our manufacturing sector.

Similarly, I would think another group we would have in here would be the farm community. It would say that the reason it costs that much for a turkey in Canada versus the US is these things. So I guess my question to you is, I know that right now the thing that is driving us is concern about retailers and cross-border shopping. Is there any risk that your solution 6 would lead to, yes, we could help solve the retailers' problems, but we would emasculate our manufacturing sector?

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**Mr Winter:** Well, of course. There are things you may not know, like Canadian Club is no longer made with Canadian grain. It is too expensive. They are buying it on the world market and bringing it in from Australia because our grain is too expensive. Campbell Soup Co Ltd is bringing in chicken through some little loophole because it cannot buy it cheap enough from the marketing boards. So the chicken you get in Campbell's chicken soup here is not Canadian chicken.

The Pepsi example: They can make Pepsi and sell it in other markets for what you and I would consider a reasonable price, and there seems to be some internal reason why it costs twice as much to transport it to a border community like Fort Frances. It is transported from Kenora to Fort Frances, which is a reasonable distance, whereas from International Falls it is brought in three or four times the distance at a fractionally lower price. I would like to see you bring in Pepsi and ask this bottler, "Why are your prices so astronomically high?"

I think you are right about the sourcing problem. Who knows if Heinz or the ketchup bottlers are going to stay in Ontario? It would seem to me that they can bring in ketchup from Paris, Texas to International Falls, which is an enormous distance, and sell it much cheaper than they

can by bringing it in from Leamington up to Fort Frances. It is a very big issue in our economy today whether many of these manufacturers will not move down to the Texas border, or even do as Green Giant has just done. They moved out of southern California at \$7 an hour so that they can pay \$4 a day to the Mexicans. What are they doing down there? It is frozen something or other.

We cannot stop that. Those are decisions that are being made by other people, and our economy is changing rapidly now that we have this free trade agreement. I think we have to concentrate on some of the bottlenecks that are affecting our retailers and ask those questions, "Why is the wholesale price in Canada higher than retail in the United States?" and get some answers on that.

**Mr Phillips:** I speculate the answer will be the same reason you outlined for the retailers. It is everything. It is just the cost of doing business in Canada.

**Mr Winter:** But that does not explain why Oshkosh is three times more expensive in Toronto, which is the fifth largest market in North America. You have New York, Chicago, Los Angeles, Detroit-Ann Arbor, and then you have Toronto.

**Mr Stockwell:** Different governments.

Interjections.

**Mr Phillips:** I appreciate it, John. I am just saying, I think I know the food processing industry quite well, and there is a substantial risk that it will all leave here.

**The Chair:** I guess one of those recommendations we have to figure out is how to keep it here.

**Mr Phillips:** Well, that is right.

**Mr Kwinter:** Could I just make a comment on this?

**The Chair:** Quick.

**Mr Kwinter:** During the free trade debate, I chaired the cabinet subcommittee that travelled around. We had a leading executive of one of the major food companies in the world, the Weston group, and he said that in his opinion if the free trade agreement goes through, as far as the food processing industry is concerned, anything that has a long shelf life than two weeks will no longer be made in Canada. The example he used is that the Oreo cookie factory in Chicago would run for a couple of extra hours on a Friday afternoon to make all the cookies it would need to service the Canadian market. That is the problem—the economies of scale and the volumes.

**Mr Sterling:** When you go to the solutions or toward amelioration, I guess my focus on trying to ameliorate the situation is to allow people in our country to compete—that overused cliché—on an even playing field. I am not interested in saying to our consumers, "We are going to give an unfair advantage to one side or the other." If our people cannot compete, then they should not be in it and somebody else should be providing that service.

Now, I think that we can compete if we make some changes. Part of those changes, as my colleague mentioned, is that our taxation structure is far too burdensome on our small business people. I think the health tax levy which was introduced by the past government was extremely ha-



the small business people in this province. But I am asking for other parts of the solution.

I was at an urban planning conference in late October last year and I heard Michael McCracken of Informetrica, who actually made a presentation to this committee in our pre-budgetary consultation. One of his comments, I thought, was interesting—I do not know if anybody has mentioned it yet in this committee—and that was that our municipal governments had made no attempt to plan or care for what you would call second-class or third-class retailing. They have attempted to do all of their zoning for retailing as first-class retailing. Therefore he saw as part of the problem in competitiveness in the retailing business that we were far overstocked or oversupplied with retailing space which was “first-class” and we were far understocked with retailing space which was second- or third-class or whatever you want to call it. I think that is perhaps something positive which some of the municipalities can participate in, providing some remedy in keeping the business free. Because if you have to pay \$54 a square foot at the Manulife Centre, then Creeds can no longer exist, or nobody could buy Creeds at \$54 a square foot.

If Manulife would not move off \$54 a square foot, then that space is empty, as it is now. I think that part of the problem is not only on the basis of our fixed costs or our leasing costs being too high, but maybe it can be traced back somewhat to a planning problem as well.

**Mr Winter:** Well, we have far less retail space than the United States and partially that is because the Ontario Municipal Board keeps a restriction on the amount of commercial space that you can build. In the province of Ontario you have to go and say to the municipality, “There is a market for what I want to do,” or it will not let you do it and then you have to fight it out at the Ontario Municipal Board. You do not have that restriction in the United States. You can go and build whatever you want and you can go broke if you want. So, yes, we certainly do seem to have lower standards with Cadillac standards.

If you compare a supermarket on the Ontario side and the Minnesota side, the cleanliness, the presentation, the quality, are far better with Safeway in Fort Frances than they are across the border. However, we are paying more for that and that ultimately gets on to the price of the butter and the margarine and all the rest of the necessities. We are subjected to high standards and we pay for them.

**Mr Sterling:** I just do not think we are competitive in retail space and I think that a lot of the small business people who are going out of business along Yonge Street and Bloor Street and areas that I see here in Toronto are going out as a result of—well, it is partially as a result of, you know, a dramatic plunge in sales, but I also feel they are being gouged. And they are being gouged, I think, because there is a system where there is not that adequate supply of all kinds of retail space which they can rent at a reasonable price. So I think we should actually look at the planning issue and say to municipalities, “You have to be willing to provide an adequate number of spots for this kind of second-class retailing to go on.”

**The Chair:** I am just going to comment on that. I am sorry if I am interjecting, but when I was looking for office space for my constituency office, there were at least eight or nine empty facilities within 50 yards of where I finally chose. I asked each one how much per square foot because I was looking for the best price that I could get, like the good socialist that I am, right? I said, “Well, I’ve got a quote from this person over here.” I figure supply and demand in the marketplace is going to give me some kind of relationship, some kind of bidding war because there are eight or nine of them that are empty, and more coming. I could not get anybody to move. “No, leave it empty.” Eventually I went with the best deal that I could get, but within the whole area where I was looking there was hardly any variation and there was very little movement in terms of what you would expect in a supply-and-demand situation.

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**Mr Sterling:** I guess what I am looking for are ways that we can make the system so that retailers can be more competitive. I think we have a real problem with taxation on small businesses but I think there is also a problem in terms of lease costs in this area which just makes it almost impossible for retailers to exist.

**Mrs Sullivan:** There are a couple of things that I was interested in. First of all, following up, I wanted to know a little bit more about your methodology in terms of the work that you did in Fort Frances and International Falls, because you have emphasized Fort Frances more in your paper than the other communities where you have done household surveys. What other work did you do besides household surveys? Were you visiting in the supplier community, in the warehousing? What were you doing?

**Mr Winter:** Yes. I talked to probably all the retailers, because retailing is very person-oriented so you have to talk to the consumers and the retailers, talk to their suppliers as well, talk to the US suppliers to try to get a handle on what they are charging. One of the most difficult things in retailing is to get what people have actually bought their product for. It is a great challenge. It is one of the little secrets. It is really eye-opening to sit down with a merchant and have him show you his invoices. There was one guy who was selling some type of skidoo. I do not know which Canadian made it was. He was showing me the invoices he got from a competitor across the border. His prices from the Canadian company were considerably higher than what it was selling in the United States. This is the type of work that I was doing there.

**Mrs Sullivan:** Was the Canadian manufacturer shipping across the border?

**Mr Winter:** Yes, he was shipping across the border and the price that was asked was considerably lower. It is just like MacMillan Bloedel in Thunder Bay. The price for Thunder Bay is considerably higher than Duluth. Why is this? Partially it is because the retailers have not complained. They have not got together. I believe some of the retailers in Thunder Bay have started to kick up a fuss and asked these questions and they have been getting lower



prices. But still, Menard's down in Duluth is getting much better deals.

I was only quoting Fort Frances more often than some of the other studies because it is the most up to date. I feel that the work I did in Windsor almost a year ago is no longer up to date, because you can see the trend in the Toronto area over the last few months and it has gone up just in the people who are curiosity seekers. They go off and then they tell their friends and they go off and it comes into a vicious circle.

**Mrs Sullivan:** I was interested in that, because when I look at the communities that you have looked at, Fort Frances and International Falls as a community are almost like one town and certainly this issue has been one that has been a part of life in that area for as long as people remember, from the time they were children. There were certain shops that you went to to buy certain things on one side and the Americans would come back to buy certain things on the Canadian side. Perhaps one of the things that has deteriorated there is that there are fewer Americans coming across now, but once again that could be a price situation.

When you were doing your work, were you looking at the kind of retail co-operatives that would enable an increased volume of purchases, an increased retail inventory, from a supplier?

**Mr Winter:** Yes, but one of the recommendations to the retailers was that they had better get together with compatible retailers elsewhere and form buying groups so that they could buy at a greater volume. There was one guy, for instance, who was selling Maytag dishwashers. Now, he could get a really good deal if he ordered 54, but it is a small community and he is never going to get sales of 54. But if he was able to join together, Maytag would actually send it up there without any charges and he would be competitive. But he can only get that deal with such a size. So certainly there is a need to join buying groups and have more buying power, but you run up against the problem of smaller, independent, family businesses that believe that one of their strengths is their independence and the service that they give. That is the way they see it, and they do not want the same type of merchandise as the competitor down the road has got. So it is not easy.

**Mrs Sullivan:** I was interested in your comments about the wholesale cost to retail merchants, and I think it might be worth while for the committee to have a future look at those areas. I tend to agree with Gerry Phillips that on Canadian manufactured products, the various items you have identified as making our retail sector less cost-competitive are also going to be reflected in the manufacturing sector and probably in the distribution sector as well. That is something we might want to look at.

Were you able to identify any new trends in retailing that appear to be a move away from existing retail operations that in fact may break some of the consumer habits as they exist now? You have identified, for instance, the Price Clubs, the warehouse operations, as being very attractive. There are other alternatives that are used, for instance, in Europe and we have seen some of them come to Canada, such as Ikea, with the integrated manufacture and retail

operation, providing extraordinarily good quality—Habitat another one—with low prices. Do you see any other trend along that line that retailers perhaps are not grabbing on adequately or could develop?

**Mr Winter:** I think the whole discount sector in the United States, the whole off-price sector, we have very many off-price warehouse-retail outlets. There are a few quite brilliant retailers in Toronto who will sell seconds. They are not in the malls, so many people do not know who they are. I think that has been restricted because of concentration in Canadian retailing with the big department stores and the big Canadian Tires and so on. They do not like to see the same products being merchandised 10, 20 miles away at a dramatically different price. There are so many opportunities. There is one just in northern Kitchener where the Mennonite market is. They have a chance of setting up an off-price discount mall that may rival Niagara Falls. They certainly have the known location and the draw of other reasons.

So I think it is going to come very gradually, but I do not think we have the time to wait for some of that and I do not think our small retailers are expendable. I do not think we should just shrug our shoulders and say: "Well, those guys are not competitive. Too bad." I think we have to do something.

**Mrs Sullivan:** You see, every alternative that you have suggested as an approach relates to moving into a cut-rate, lower-priced opportunity. Now, Bi-Way was that operation, a beautifully managed, highly profitable operation for years and years. Abe Fish did a wonderful job with that company and it is in virtually every community or region of the province.

The cut-rate opportunity has been available in Ontario for a long time, but it seems to me that if the downtown retail merchant is going to be competitive, something other than a cut-rate warehouse operation is going to be vital and I just do not hear how the downtown merchant in the community is ever going to be competitive, particularly with the new retailing trends are immediately to the low-price seconds operation.

1700

**Mr Winter:** We are having a dichotomy in retailing. We either go for low price or we go for some type of value added and extra service. You pay your money and you take your choice.

A lot of people, because of the recession and other reasons, are taking their choice for lower prices. I think there is room for both, but probably we have too much of one and not enough of the other.

**Mr Stockwell:** Some comments maybe and they will maybe arrive at a question. First, I represented municipalities in an area known as Long Branch, New Toronto, Mimico, and Lakeshore. I am sure you know about it, being from the Beach in East Toronto.

Twenty-five or 30 years ago, they wailed and screamed when Sherway Gardens opened. Sherway Gardens was the shopping mall bonanza that took place some 20, 25 years ago, and in Toronto there were a number of them—Yorkdale, Sherway, Cloverdale, some others that opened



they are still living in that era. Even if you walk down the street today, they would still complain about our allowing the freeway to open.

Now you find Sherway store owners complaining about the Price Club opening and the Price Club stealing business from them, etc. It seems to me that if we are going to be in a free market system, these things are going to happen. Although it may be difficult to say and difficult to accept, but to try and protect certain segments of our business community such as the small strip shopping area such as the Beach—well, the Beach is different, but let's say Mimico, New Toronto and Long Branch, because the Beach is a little more specialty, high-end, artsy kind of shopping area—but if you did try and protect the New Toronto-Long Branch-Mimico area, are you just wasting your time? Is it really something that can be done to achieve a viable return to those days when they were a big concern?

**Mr Winter:** I do not think I am talking about going backwards. I am talking about negative changes that are happening in our society and what implications—if we do not do something, a few years down the road we are going to have enormous vacancies.

**Mr Stockwell:** But you are calling them negative changes.

**Mr Winter:** Certainly.

**Mr Stockwell:** You are suggesting they are negative.

**Mr Winter:** The dollars are going across the border to other things.

**Mr Stockwell:** I agree with that.

**Mr Winter:** I remember when Sherway opened and Dixie was just clobbered. It took them, what, 10, 15 years to get back to some type of reasonable—

**Mr Stockwell:** Dixie mall.

**Mr Winter:** Yes, Dixie mall. Cloverdale had problems for a few years.

**Mr Stockwell:** Yes, but what happened to Dixie Value Mall is they found a new niche in the market.

**Mr Winter:** It took them a little while.

**Mr Stockwell:** But they found it. Now they are busier than Sherway.

**Mr Winter:** But I do not think you are going to find another niche in the market in Windsor or Niagara Falls once the little guys go out of business.

**Mr Stockwell:** Okay. The other question is, I have a very great difficulty with some of your recommendations: if we cannot compete, if we are not going to be able to compete, then let's charge somebody to go across the border. That seems totally counterproductive. We are not resolving the issue. We are just saying: "Okay, yes, we charge you a lot in taxes and real estate is high and so on and so forth, so what are we going to do to solve the problem? We'll slap a new charge on you if you decide to go over the border." It seems totally counterproductive to me.

**Mr Winter:** We happen to be paying for some of our special services by these taxes that people can escape by

shopping across the border. Those taxes, indeed, make some of our retailers uncompetitive.

**Mr Stockwell:** A \$5 charge, you feel, will stop the cross-border shopping for the gas and milk and such things.

**Mr Winter:** It will certainly cut it down a considerable amount, I feel.

**Mr Stockwell:** Let's move on to the bigger ticket items. Five bucks is not stopping somebody. I heard of a friend of mine who is planning on going down to get a car. Tell me something: What are we going to do about that? A \$5 charge is not going to make one whit of difference to that person.

**Mr Winter:** I get different stories about cars. I believed from one source that we now had restrictions on car purchase and that you cannot buy a Canadian model in the United States, and a Canadian model is a very simple change. You have to have a baby restraint system and you have to have lights on all the time, something that you could go to Canadian Tire and within five minutes they could change the US car and make it a Canadian car. I believe you cannot do that. There is a restraint, how we protect our automobile market. I do not see why we cannot introduce some other protection against the people who have built our border communities.

**Mr Stockwell:** The other point you make is on buying power. You have suggested if we had better buying power, we could if you listened to what Mr Phillips said about Pepsi walking in and itemizing it, why would not the same problems that a retailer faces be faced by a manufacturer, a wholesaler or a middle man? For instance, he still has the health tax, workers compensation, unemployment insurance, business, realty, municipal, all these taxes folded into his operation. Why is it so astounding that his prices are higher also than the middle man's in the United States?

**Mr Winter:** I believe his prices are higher, but what we are talking about is not just 10% or 20%; we are talking about Pepsi at three times the price.

**Mr Stockwell:** I know, but I ask you, how much of that is made up in just the simple, non-competitive position that our country is in right now?

**Mr Winter:** I believe the Pepsi manufacturer that we were talking about has a monopoly. He can charge what he likes.

**Mr Stockwell:** So you think there is gouging involved as well.

**Mr Winter:** For that example there appears to be, when you have a look at what he is selling at in other markets.

**Mr Stockwell:** Okay, so gouging is taking place.

**Mr Winter:** But who is doing the gouging? I do not think it is the retailer.

**Mr Stockwell:** It is academic, because if there is gouging taking place and people decide to cross-border shop, somebody is going to cut his prices because he is obviously losing sales. Be it the retailer, be it the wholesaler, be it the manufacturer, somebody is going to feel the pinch.



No, he is not making as much money. If he cuts his prices, he realizes his profits are going to go up.

**Mr Winter:** But they go across the border and buy the Pepsi there.

**Mr Stockwell:** The point I am trying to make to you is, so they cross the border in droves; eventually somebody comes to the realization, "Let's drop my price, because I am losing all that business to the United States." I mean, if it was that simple, it would be that simple to resolve. The free market system would level the playing field.

**Mrs Sullivan:** He cannot price it at \$10 below his cost.

**Mr Stockwell:** I guess the point I am trying to make is, there must be more to it than somebody simply gouging. There has to be something more to the equation than somebody gouging, because if he was losing a tremendous amount of business to cross-border shopping, any idiot would say: "Well, I'm losing so much business, I had better drop my prices. I've got a 100% or 200% markup in this. Let's take 40% or 50%."

**Mr Winter:** I do not understand.

**Mr Stockwell:** You do not understand the question or you do not understand why they do not drop their prices?

**Mr Winter:** Part b.

**Mr Stockwell:** Well, frankly, I do not agree with you. I do not think there is that much gouging taking place. I think there is more to it than simply he is overcharging and that is why he is not dropping his prices.

**Mrs Sullivan:** He would be wise to buy it at the Price Club and have it shipped in.

**Mr Stockwell:** Yes. Well, it is true. The sad commentary is, the Price Club's retail price is less than the wholesaler's price to the retailer. It is obscene that that in fact takes place.

You talk about the savings by crossing the border. One of the points during your conversation was the Sunday shopping issue. Open Sunday shopping was adopted in this province for the previous eight months. Did you notice any major difference between cross-border trips because we were open Sundays or not?

**Mr Winter:** We had done some work in Niagara Falls and there was a significant proportion—and I can get it for you—who said, "Well, we would shop for our convenience items here, but the stores are closed, so we are going across the border." That was before the legislation was struck down. I did not have the opportunity to survey in Niagara Falls because it is all driven by what the client wants and where the client is located. I have been very fortunate to be able to have worked in certain communities at more or less the right time, but I did not have the opportunity to run that survey when everybody was open to see how those patterns have changed, so I am afraid I cannot help you with that.

**Mr Stockwell:** All right. The last question is, from the percentage of shoppers that do cross-border shop, what is the percentage that responded to you that price was the number one reason for shopping?

**Mr Winter:** That is usually the highest. I can get that for Windsor and—

**Mr Stockwell:** Give me an idea: 60%, 70%, 80%?

**Mr Winter:** Yes, it is up like that. Then the next range, probably 10%, 15%, in that range, is selection and—

**Mr Stockwell:** Service.

**Mr Winter:** And then service comes down, and going to see their family and friends and all the rest are reasons in border areas.

**Mr Stockwell:** Do you believe that if these adopted the problem would be resolved?

**Mr Winter:** I do not think we are ever going to solve the problem; I think we can ameliorate it. I think we have to do some radical things now or else the conditions in the border communities, in Windsor, in Niagara Falls and Chatham, where it is really hurting, will get dramatically worse.

**Mr Stockwell:** You say "now." Like in the next couple of weeks? I heard you say that people are declaring bankruptcy today, tomorrow, a week or so down the road.

**Mr Winter:** I do not know how fast you guys work.

**Mrs Sullivan:** Slow, slow.

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**Mr Stockwell:** It depends. Well, tell me now. I think in the next couple of weeks that we are going to see some more major bankruptcies along the border towns.

**Mr Winter:** Certainly, and we are going to see some more retail bankruptcies too.

**Mr Stockwell:** You are not overstating the problem. We are looking at some huge numbers.

**Mr Winter:** In January, some of the retailers I know even in Toronto—there was a small retailer who is a Jew and there were days when nobody came into his store and people came into his store and just bought a watch for \$6 total sales all day. It is really serious out there in retail now and the figures are showing it. It takes some people a little while to realize how serious it is in retail. It is even worse in the border communities and that is why some of the mayors are jumping up and down and saying "Hey, let's do something."

**Mr Stockwell:** So we do not really have a lot of time to consult.

**Mr Winter:** I do not think we have the luxury of time to spin this out for years while we come up with a solution.

**Mr Stockwell:** Months, months. I am trying to get you down. My problem with this government is it consults, it reviews, it discusses, it answers its questions in the fullness of time. Really, what I would like you to give to me is an impression of what we are looking at here, your time limit, that you think something needs to be done.

**Mr Winter:** I would like to see in the next couple of months some means by which you apply provincial sales tax to cross-border shopping.

**Mr Stockwell:** And then also charge for people who do cross-border shop?



**Mr Winter:** I do not believe that it is your jurisdiction. I think you have to say to the federal government, "Look, guys, you're going dramatically the wrong way."

**Mr Stockwell:** Last, how did you get involved? You're a management consultant business. Do you have a retail business?

**Mr Winter:** No. I used to work in retailing, but I have a management consultant business and we have been hired by a number of municipalities to help them come up with a strategy to face this issue. I also have had the luxury, because we do other types of survey, to sneak in questions that I am interested in when we do other types of surveys. Most survey firms do this, but I have a wide database on this issue, along with a number of other issues, I may add too.

**Mr Stockwell:** My last question is, if you could leave with one thought, it is that speed is very important when it comes to this issue. We do not have time to hang around, debate and discuss, consult and review it and all those kinds of lovely words.

**Mr Winter:** It certainly is a good summary.

**Mr Stockwell:** Thank you. I can use that.

**Mr Hansen:** I just wanted to clarify; maybe Mr Stockwell was not here earlier when I handed this out. As it says, "Price in US dollars." This is an advertisement that was in the Tribune. There is a 7% GST, there is a 8.3% duty, no provincial sales tax, and one thing I forgot to add, no state taxes also in New York state. This will be delivered to your driveway. This is the one I was talking about and this to me is very aggressive. There is an outfit in Ridgeway, I believe, that is into pool sales on a wholesale basis. It is not very competitive for him when it comes in and there is no sales tax. That is an 8% difference right there.

I am sorry, Mr Stockwell. I know you have asked a few questions about when we are going to get going. In this committee we have tried to get going as soon as we can. I think Mr Kwinter will say that we discussed, before we even did pre-budget, that we get going on this right away. So we are doing the best we can. We do have to consult a little bit, but the thing is that I can see that this whole issue has ballooned since January because when the GST did come out there were people writing letters to the paper to say: "It's a revolt. Refuse to pay the GST." Even if they paid 4% in New York state, they were looking at the revolt that they were getting even.

**Mr Winter:** This is the Canadian equivalent to proposition 13: "We're not going to take it any more, so we're going to go across the border."

**Mr Hansen:** Yes. So it is something that we have been looking at. I know you say you are not on the government side, Mr Stockwell, but you are part of the government and your participation and your ideas are welcomed on this side, within reason.

**Mr Stockwell:** That is not true. You know that.

**Mr Hansen:** To help the retailers out there, I think it is very important that we all work together. The one thing I mentioned this morning, since you were not here, and some of us have repeated ourselves to give you the idea of

where we are coming from, I think the biggest thing we have to take a look at and pound a little bit harder is co-operation with the federal government at the border to wind up to see some means of collecting the 8% to keep it even there. I think this is about your line.

I have to really say that this—and you do not have to blush—is the best report I have seen condensed, very short, so far. It seems to be right up to date. It is hard to keep on top of this because it changes. In the period of time that it carries on, if it goes on much longer, this report will be obsolete in another two months.

It gives us a little bit more insight into the amount of money that is flowing across the border and the effects that it is having. Being a representative of the Niagara area, I can see it quite clearly. Maybe Mr Stockwell there, being farther away, does not see the effects as much as living right in there. As I say, I could walk up the street and on a clear day I could see New York state, so that is how close I am to the border.

I just wanted to comment that it is a good report and, living in the area, I see there is a lot of truth there. I have to take a look at some of the figures and I have to believe a lot that is in there.

**Mr Christopherson:** Mr Winter, I would like to echo the comments of Mr Hansen and compliment you on an excellent brief and thank you for taking the time and lending your expertise. A few of us here are pleasantly surprised at the number of business people, consultants and others, who are prepared to come forward and literally put their time and money forward in the interest of public service. It is appreciated very much.

Just a couple of points, because I think we have covered most of the ground. At the time the recession lifts, how much of an issue do you think this will be to the municipalities that are hurting, the retailers in those municipalities and the drain on the provincial economy overall?

**Mr Winter:** It is difficult to separate one reason from another for the cross-border. I think what you see in retailing is a pattern developing and it is difficult to change a pattern once it is solidly established. What we have been seeing in the last six months are so many people going across just because they hear about it in the media or they have heard about it from their friends. They might not have known, going out from the Toronto area, that there are such bargains to be had. I think it is going to be difficult to reverse a trend such as this if it gets on a consistent and repeated basis and people get used to it. I think it is going to be difficult.

It probably may not be as driven by the people who travel two hours to buy something for their children; they might buy it more at home when we do not have a recession, but they will certainly know that opportunity is there. It seems to me that the opportunities are getting better on the Buffalo side with Wal-Mart coming into that market first and with Pace Warehouse coming and some of the other attractions, so I think it is difficult to reverse.

**Mr Christopherson:** Your recommendation regarding clamping down: I have also had suggestions about, why does the government not lean more on the issue of the smuggling aspect, quite frankly, of goods that are not



being declared as another way of, to use your words, clamping down?. How would you separate slowing down or removing some of the ease of going across and shopping, and in many cases not declaring, as a way of offsetting this from those individuals who you want to have good, easy access by virtue of the business they do, whether that is truckers, which is an obvious one, you can have a trucking lane, individuals who are going across to do business; people who perhaps work in one city and live in another? How would you see on a practical level those separations taking place?

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**Mr Winter:** In some of the border communities you do not have enough lanes across. The Windsor tunnel, for instance, is constricted, but the Ambassador Bridge is not. I think a lot of it at the border is a scheduling problem. I think the federal government should ask a supermarket operator how to operate checkouts. The key thing would be to have enough people on when the demand is highest. They know when the demand is highest and they could quite easily schedule more people to work at those high, peak times. Have you ever come into Pearson when three or four jumbos are coming down and they know they are coming down and there are only a couple of people checking people through? What is this? If a supermarket operator did that, he would be out of business very quickly. It is a scheduling problem.

You could quite easily take some part-time people, put a funny hat on them, let them sit at the border and say, "Please, open up the trunk of the car." Those guys do not even get out of their little cabins. "Have you anything to declare? Where do you live? Welcome back to Canada. Have a nice day." I do not call that work. They have the option of not charging duties and not charging GST, whereas our retailers have to charge GST on minuscule amounts. Those guys, if they do not feel like it, if there are a lot of people there, can just wave them through. What is this? Meanwhile our Ontario retailers are going down the toilet because these guys are not doing their job properly. They should be collecting those taxes. They should be taking every dollar of taxes that they should be doing.

Perhaps we need to go back to the system that we had in Canada 200 years ago where the customs guys got a percentage of what they collected. If you linked their pay to productivity—

**Mr Kwinter:** They found out that the guys were making more money than the government, so they cut it out.

**Mr Winter:** If you had some type of bonuses for those guys, linked to the amount of money that they collected, would you see them opening up the trunks of more cars? "Would you please open up your trunk, sir? I want to look in." Sure they would.

I think it is a scheduling problem. You just look and see how many checkouts they have open. I would ask whoever runs Loblaw to give some advice to the federal government on how to run a checkout, because he runs them pretty good on Saturday mornings when I want to get through.

**Mr Hansen:** If I can just interject, one thing that happens is that those bridges built in Fort Erie and Niagara Falls were built for tourist trade; they were not built for shopping trade. I think that is the big problem right there. They were not designed for the amount of traffic going across.

**Mr Winter:** On some bridges, like Rainy River, there is no charge whatsoever, so there is absolutely no restriction. You do not have to pay your \$1 or 60 cents; you just go across.

**Mr Hansen:** The other thing too is the long lineups. Gets so backed up I think that the people who are doing inspecting are getting telephone calls saying, "They're five miles back from the bridge causing traffic jams," so they wind up, "Next" and going through. I know it is wrong.

**Mr Winter:** Put more checkouts open on a holiday Sunday night because, yes, there are problems at the other end of the Windsor bridge. It is on Jefferson Avenue in Detroit. Sure it backs up in Detroit, but if you put more people on when you know that there are going to be peak periods, then you would be able to process them faster and you would also be able to ask them whether they have something in the back.

**Mr Christopherson:** Another question: Does anything come to mind as an obvious answer if the tax on gas or anything else were slashed, whereby the price that Americans are paying in terms of their cities and the quality of life would not happen here without having to pay on those taxes somewhere else? I realize it is an economic question, and a political one, but it is kind of the other side of another question that was asked by someone else.

**Mr Winter:** One of my solutions, one that I think works with the market, is to try a test market where at a border point you permit a gas station to sell gasoline at lower levels, so if you are going to drive to the border and if you are going to go across, you may as well buy your gas at that border point. You have driven there anyway. You would buy it in Canada. Now, you as a province are going to get a lot of taxes, because those taxes are going across the border. There are state and federal taxes in the United States that are considerably lower than in Canada, but it would be interesting to see, and that would be a test that would be quite easy to do. You set up an intervening opportunity where you can buy the gas.

In a small community like Fort Frances it might be that you would not be able to build a gas station at the border but you could rotate it among the gas stations in the community. If you are going to drive across, then you can get it. And that process of driving across for your gas engenders a whole lot of purchases, because you may just as well stop there and pick up your cigarettes or pick up a nice, humorous turkey for Christmas or for Sunday dinner, and so on.

**Mr Christopherson:** I follow your logic. The only thing I have had trouble getting over on this issue, quite frankly, is that I still see us just moving the border in terms of the cost of gas. In other words, no matter where we lower it and where we put it, there is going to be somebody on the periphery of that line who is going to say "You've drained my business." The communities are going



claim it; certainly the gas station operators will. I know the zoning idea has been suggested, and there is a lot of experience. I do not think we have seen anything innovative, and maybe that does work, where you feather it. But that is always my concern about that; no matter where we put it, if we just isolate it in one place and say, "Well, here, you can have the same benefit as there is across the border," you are just moving the problem somewhere else. If someone in another community is going to feel that he is being wronged by it.

**Mr Winter:** I believe if you are going to drive to the border, you may as well be able to buy it on the Canadian side rather than the US side. I think that is worth a try. It does not cost you anything. Indeed, it will be revenue-positive because you will get more taxes. Let's see how it works on different locations. It is a reasonable idea. It sure works for the market.

I know the Quebec experience is they lower the taxes as you get closer to the border, but I do not think that is going to be dramatic enough. Okay, you are going to spend 54 cents instead of 54 cents, but they have got it over the border side at 26 cents, so you will still drive if you are determined to fill up your gas tank at half the price.

**Mr Christopherson:** I appreciate very much your time and your answers and thoughts.

**Ms M. Ward:** I think most of the things that I had in mind have been discussed and answered. One of the things I was going to ask you has been touched on slightly. You were saying in here that the GST had an effect but it is mainly not a major explaining effect in terms of price. You have identified a lot of causes and some possible solutions, but what I was wondering about was really asking you to delve into people's minds, and I think your surveys might be able to do some of that. How much does people's perception about taxes, in the sense that if they feel taxes are unfair, then they give up their national sense of responsibility—you were saying, "Where are all the nationalists?" I guess I am a nationalist, because Mrs Sullivan was giving the example of something \$7.99 and some other tremendous price. I would go for the higher price if it were Canadian. I do not understand why there are not more of those.

But what I was getting at about the taxes, if people feel that taxes are unfair, does that make them just decide to give up their national sense of responsibility to buy Canadian, or do you think? Like the anger over the GST, I can see that leading to increases in municipal taxes also, just a sense that taxation is unfair.

**Mr Winter:** I think it is like the free trade debate. We have had a very divisive debate on the GST, which unfortunately does not work. Hey, retail sales shut off like a faucet in January. It was just a disaster. It might have been better if they had introduced it in the middle of the summer when we were all feeling better, but in the depths of winter, in the middle of a recession—anyway, we are told that we want to become one big market, so why are those advantages in our stores rather than in their stores?

What I have seen is that people have been sold a bill of goods on the GST. They expected things that it would not produce, and unfortunately they were led to believe there were going to be some changes that they would see. They have not seen the changes and they are taking them. That is one force here. Now, how important that is in the total scheme of things, I could not say.

**Ms M. Ward:** Yes, it is maybe not very large. I think you mentioned something about 5% of people would buy Canadian no matter what.

**Mr Winter:** In the surveys they come through. Now, those may be the wives of retailers in the town, for all I know.

**Ms M. Ward:** There should be other reasons, but is there any chance of expanding that?

**Interjection:** The kids.

**Ms M. Ward:** I am not a retailer's wife.

Most of the other things I was wondering about have been discussed. One other thing: The Fort Frances and International Falls situation here that is covered in your paper, I am not familiar with International Falls. What is the size of that, relative to Fort Frances? Are they both the same size?

**Mr Kwinter:** Very small communities.

**Ms M. Ward:** So it is not an attraction of a bigger—

**Mr Winter:** There are 10,000 people in the hinterland around it on each side, so it is 35,000 total, both sides. But it is nice because it is isolated and they are equal distance from a large city. The trouble when you have price comparisons in Windsor versus Detroit is that Detroit-Ann Arbor is four million or five million people and Windsor is only about 250,000. The advantage of this area was that they were both relatively isolated but relatively the same distance from major urban areas.

**Ms M. Ward:** The other thing I was going to comment on, and I think Mrs Sullivan discussed this also, or maybe Mr Phillips, was the effect on other businesses, such as production. You were speaking about the manufacturers. It must also have an effect on small producers. You know, your supermarkets do buy from the small farmers and so on in the surrounding areas. You can imagine other groups being affected, such as people involved in crafts and so on. Is that a factor also?

**Mr Winter:** Of course. There is a negative spiral all the way down through the economy. You see the retailer's problems first. It is difficult to put a finger on, let's say here in the Toronto area, if you are selling bedding or linens, why your market is so poor at the moment. Look, we are losing out of Toronto 9% of our linens and bedding market to the Buffalo stores. There are a number of reasons for that, but that is high.

What level is acceptable? If you are in that market now, you may not realize how much is going across, because it is such a large and diffuse market, so you cannot put your finger on the fact that somebody in handicrafts has suddenly got his market cut off or reduced significantly because people are going across the border. Some of these things are difficult to nail down, but you can see the



processes involved and they appear to be negative for the economy in general.

**Ms M. Ward:** One last thing just occurred to me. Is there any chance that this is cyclical? I can remember years ago people used to talk about going to Buffalo. It was a big thing. I was only a kid at the time, believe it or not. Is this something that ebbs and flows and so on? Do you think it may die down again?

**Mr Winter:** Yes, I think there is a pendulum. I think it does go from positive to negative. I think it is very significantly negative at the moment. I remember 12, 13 years ago our gas prices were actually lower than in the US and in some border communities there was a flood over to our side, for the gasoline only, not for these other things.

**Mr Kwinter:** That was a supply problem.

**Mr Winter:** Always the supply, because it is remarkable to see in Fort Frances that the truck goes through Fort Frances and the gasoline halves in price. It is all Canadian gasoline being sold on the other side. It is all the government taxes.

But, yes, it swings. I think it is significantly negative at the moment. If our economy continues to be weak, it will continue to be solidly negative against us for the short-term future.

**Ms M. Ward:** It is not just prices, though, and economics. It is also attractiveness, is it not, of the area that you are visiting? Buffalo for a number of years was not an attractive place at all.

**Mr Winter:** That is right. Buffalo has come a long way.

**Ms M. Ward:** I would not go there, so I do not know.

**Mr Winter:** I do not really know why you would go there, besides the Knox-Albright gallery and the chicken wings.

**Ms M. Ward:** Thank you. I appreciate your report also.

**Mr Phillips:** Again, just a comment, because I feel rather strongly about it and I think it is important for us as a committee to keep focusing on this. I personally think that the cross-border issue is the first of a growing issue, and I think how we treat it is extremely important.

Mr Winter, I repeat, has done a fabulous job here. I just have a fundamental concern about one of your recommendations, because I think that what we are seeing with this cross-border shopping is a kind of a focus and a highlight of the difference in the cost structures, Canada-US, and the retailers are looking for a solution.

If we grease the skids that make it easier for products to come from the US to Canada to solve this, I think we are going to accelerate the problems for our manufacturing sector. Maybe there is no solution to it, but I think I know some of the industry well. I do not believe the food processors are gouging. I think the profit margins Canada-US are about the same, and many of them, frankly, because they are US-owned, would welcome greasing the skids and would say: "Your problems are over. We'll manufacture. We'll keep our plant in Rochester moving a little faster and we can sell Pepsi here in Canada for \$6 a case. Don't worry about it."

I am just saying I think we as a committee have really watch that we do not buy that solution, only to find we have undermined our manufacturing and our food processing sector—our food producers, our agricultural communities.

**Mr Winter:** I think we are having some change. Ontario for a long time could not get enough chicken market share, for some reason, and the prices were just double. My understanding is that we are addressing the problem and Ontario will get its reasonable share of the chicken quota. But I think that is going to take time. How long have we got?

**Mr Phillips:** Believe me, I appreciate your recommendations. You are here just to help us and I am not trying to be critical. I am just saying I think we have to watch that one as a solution.

There may be some tax things we can do. I do not know. I have not really thought a lot about this, but the problem is that if you are crass, you would say, "Income tax cuts for everybody who resides in Canada, but there is a group of people who are avoiding sales tax and that sort of stuff." I do not know whether we should be trying to think creatively about the tax structure. Maybe it will not work. There is, in a sense, an opportunity to inadvertently ease normal taxes here in Canada and maybe we should think creatively about that.

You have suggested one solution, which is an interesting one, of sort of the gasoline duty-free shop. It would be interesting. I imagine a bunch of people would sort of go to the end of the bridge and drive to the end of the bridge and turn around and come right back again, or maybe they would just back up from the thing, but I think that was a creative solution that you have given us.

I do not know whether you have ever considered whether you have any recommendations generally on the tax structure that may be of assistance.

**Mr Winter:** I believe you are talking to the Retail Council of Canada next week. They continue to say that you should be looking at the taxes that are on the retailers. I would agree with them that the taxes are high, but when you look at the total scheme of things and how much taxes are as a percentage of your normal operating costs, they are pretty low. But anything that will improve the competitiveness of the Canadian retailer is good. But again, how long is it going to take?

**Mr Kwinter:** I just want to make two comments. One of the things about the taxes, we are saying the GST is not necessarily a factor and the retail sales tax may not necessarily be a factor. When you look at it, for those items that do not have to be declared, where they would be subject to the GST, the total is 15%. That 15% really represents the difference between the value of the Canadian dollar and the value of the American dollar almost exactly. So if you go over to the United States, and as long as you are buying something you do not have to declare, it is at par. You are really buying it at par. I mean, you do not have to calculate; it is exactly at par, because you are not paying 15% extra as you bring it back that you would have to if you bought it in Canada. So what you do is, you look for the bargain and you do not even have to calculate; it



bargain. Whatever you pay for it, that is the cost in Canadian dollars because you are saving that 15%. I think it is a significant number, a significant factor.

The other thing that I want to caution everybody about in any recommendations is that we are now into a free trade agreement and there are certain obligations on both sides of the contracting parties and you cannot erect non-tariff barriers. You cannot suddenly put a charge on people coming back into Canada and not have it going the other way, because that will be seen as a non-tariff barrier. It would be a disincentive to trade, and anything you do of that kind, you have to be very careful that it can stand up to the test of the free trade agreement and also stand up to a challenge by any interest group in the United States. That is just something that we have to really be aware of. You just cannot unilaterally do things that may contravene the free trade agreement.

**Mr Winter:** But I believe the US has a test location where it is trying the \$5 service charge. You know, it is a pay—you use those services, you pay for them—and I believe they have started one or two where they are testing it at the border. I think that is going to be the test, because if they put a \$5 charge on, we could put a \$5 charge on, and suddenly it does not pay you to go across and fill up your gas tank.

**Mr Sutherland:** Sorry, if I could just interject, this \$5 charge experiment, is that \$5 per person or \$5 per car? It makes a difference as well.

**Mr Kwinter:** I do not know any of the details of it.

**Mr Winter:** I do not know, I think it is \$5 per car. It is certainly \$5 if you go across on a commercial vehicle, I believe.

**The Chair:** Are there any other questions from the committee? Then I would like to thank Mr Winter for coming. It has been a very informative afternoon. Thank you.

**Mr Kwinter:** It was really very good.

**Mr Stockwell:** The best we have had, no question about it.

**The Chair:** If you find out any information or anything that you feel you would like to share with this committee on an ongoing basis, we would appreciate any information that you could send along to us.

**Mr Winter:** We have just done something in Brantford, but we have not processed it, so we might know what the Brantford share is. Somebody is on the committee from Brantford, I believe?

**The Chair:** Brad Ward.

**Mr Sutherland:** I just wanted to bring up one other item of business before we adjourn. I wanted to discuss whether we were going to extend an invitation to this group of mayors that has kind of got together. I would ask either them or a representative from them to come and appear before the committee and I just wanted to see whether they thought that would be a good idea as well.

**Mr Stockwell:** Sure.

**The Chair:** The committee is adjourned until Thursday the 11th at 10 o'clock.

The committee adjourned at 1744.

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Cross-border shopping

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 11 April 1991

The committee met at 1009 in committee room 1.

### CROSS-BORDER SHOPPING

**The Vice-Chair:** I welcome you to the standing committee on finance and economic affairs and our task force, sense on the cross-border shopping issue.

### ONTARIO MILK MARKETING BOARD

**The Vice-Chair:** I would like to welcome the Ontario Milk Marketing Board, and I would appreciate it if you would introduce yourselves for the rest of the committee.

**Mr Core:** Thank you, Mr Chairman; it is a pleasure to be here today. I am John Core, chairman of the Ontario Milk Marketing Board, and to my right is Peter Gould, an economist who works for us; Claude Chartrand, who is a member of the board representing northern Ontario and its particular interest in this subject; and our general manager, John Smith.

I would like to begin this morning by thanking the committee for the opportunity to make a presentation. This is not the normal mandatory opening expression of thanks. You cannot turn on a radio or even open a newspaper these days without finding something on cross-border shopping. This is the current issue. It is the most obvious manifestation of some very fundamental problems in this country. However, the dairy industry started raising alarm bells at least as far back as 1986. While it is some solace to see the issue being given its due, we have seen continuous and aggressive erosion of our industry over that five-year period. At the same time, erosion is now affecting many other products and commodities. The impact is felt most directly in border communities, but that is the tip of the iceberg in our view. Lost sales mean lost jobs anywhere in the country where manufactured goods or food products are produced. In a general context, cross-border shopping is a very difficult problem to address. Border controls and duty collection are federal jurisdictions, but obviously there are provincial areas of responsibility that impact on the incidence of cross-border activity.

Perhaps what might be as difficult as anything is to change consumer attitudes. For reasons that are haunting us already, we have allowed and even encouraged Canadian consumers to take shopping excursions to the United States as a right. Who among us is going to challenge that constituency?

As you are all too well aware, another dimension to the problem is the erosion of the tax base. Do those taxes just get shifted or do we forgo services? Once either of those occurs, we enter a spiral that is difficult to stop. Canadians, like everyone else, complain about their taxes but somewhere along the line public finances have to be explained.

The problems faced by the dairy industry and dairy farmers are just a microcosm of a much larger problem. However, because of our system of national supply management, the dairy industry has a special need for effective border controls. That does not mean, though, that the impact on other industries or sectors is any less severe.

Furthermore, there is a direct relationship. As the incidence of cross-border shopping increases, the effect on the dairy industry worsens. The dairy industry has been seeking a solution to cross-border shopping for five years without success. Perhaps now that the issue is much more broadly based and being addressed in forums such as today's, there is a better chance that something meaningful can be accomplished.

In this presentation I want to do two things: provide some background on the issue from a dairy perspective and quantify the impact, and discuss our assessment of the problem and some potential solutions.

From the dairy industry perspective on supply management: To understand our concerns, I thought it might help to provide a little background on national dairy policy.

It is safe to say that supply management, as practised in Canada, has been at the forefront of the public policy debate for most of the last decade. It started in 1981 with the Economic Council of Canada's review of regulatory reform. That was followed in turn by intensive debates during the Canada-US trade negotiations, the GATT negotiations and most recently the National Dairy Task Force review.

Over that period we have been forced to synthesize and define what exactly are the key elements of national dairy policy and supply management. It boils down to three elements: border controls, production discipline and compensatory pricing.

The system only works with all three elements working effectively. Producers collectively limit their production by means of a quota system. The government carries no surplus removal responsibilities in Canada. This is not the case in virtually every other major dairy-producing nation. If surpluses are produced, they are exported at Canadian producers'—farmers'—expense. In exchange for limiting production, producers expect fair returns for their labour, management and investment capital. That is the compensatory pricing we were talking about. Finally, to prevent surpluses and maintain prices, effective border controls are essential.

Traditionally, supply management has been viewed by many as a program designed for farmers and by farmers. As the GATT process untangles, it is becoming more clear that our system evolved as the only viable means of sustaining a Canadian dairy industry from the onslaught of the grotesquely unfair but somehow legitimate trade practices



of other major dairy-producing regions, notably the European Economic Community and the United States.

Just as a side comment, you might be interested in knowing that the surplus dairy production in the United States at the peak of their surplus exceeded the total Canadian milk production. Their surplus, about two years ago, exceeded our total production.

Too many of our critics view border controls as a means of sustaining supply management when quite the opposite is true. We discipline production because of Canada's use of article XI to put border controls in place, and in that regard we are virtually unique around the world. Just a footnote: Article XI is that section of the General Agreement on Tariffs and Trade which gives the authority to countries to implement quantitative restrictions on imports for products whose production is limited to domestic requirements. So that is the authority from which we use border controls.

To put it simply and succinctly, without effective border controls over the past 20 years it is doubtful whether there would be a dairy industry of any consequence today. We limit production to meet our GATT obligations. Canada uses article XI as the only means available to defend against other countries' predatory and unfair trade practices.

Import control measures: There are three main ways by which imports are managed. These are: the use of the import control list, the Canadian Dairy Commission Act and tariffs.

The import control list identifies certain products for which imports are currently prohibited. Examples are butter and skim milk powder. Other products are permitted but are regulated through quotas. The best example is cheese. Canada has an annual global import quota of 20 million kilograms. That is about 7% of the Canadian domestic requirements for cheese. Issues relating to prohibitions and fixed quotas are part of the ongoing GATT negotiations.

Under the Canadian Dairy Commission Act, the commission has the authority to restrict the importation of blends or further processed products containing more than 50% dairy ingredients.

Finally, tariffs exist on a range of dairy products. One problem with tariffs is that they are being phased out under the Canada-US trade agreement. This led to dairy farmers asking for and having yoghurt and ice cream added to the import control list in 1988. That in turn led to the United States GATT challenge of Canada's authority to add yoghurt and ice cream to the import control list.

Blends have also been an issue in recent years with products customized—and I use that term loosely—solely to circumvent the 50% dairy ingredient provision. The most blatant example here is skim milk powder mixed with rock salt to circumvent the regulations and, more recently, cream and sugar mixtures.

The bottom line is that the industry cannot tolerate leakage in any form. Unplanned imports undermine the viability of the entire system and national dairy policy. Controlling imports is a federal responsibility. Their attitude is not always supportive, especially at a time when they want to project a more free trade-oriented image.

It is in this context that cross-border shopping affects the dairy industry. Whether a milk product or component is imported in an illegal blend or as a consignment purchased south of the border, the impact is the same.

There is a sideline to the yoghurt and ice cream issue. Canada has established, as a result of the agreement with the United States, an import quota of about 300 tonnes for both yoghurt and ice cream into Canada. You might be interested in knowing how much yoghurt and ice cream can be imported into the United States under this agreement. You can export no yoghurt into the United States because they have particular regulations saying that USDA inspectors must inspect farms from which milk is used to make cultured dairy products. So there can be no access to the yoghurt market in the US. I believe that the ice cream quota is in the neighbourhood of about 100 tonnes, most of it allocated, I understand, to countries that do not traditionally export ice cream. So even though they challenge Canada on our right to establish quantitative import restrictions on yoghurt and ice cream, they in fact have even tighter restriction, but they have a waiver from GATT that was established back in the 1950s that is not able to be challenged. I just wanted to make that side point to you.

The impact of cross-border shopping: As noted, the dairy industry is always concerned about border leakage. In the mid-1980s, producers in British Columbia began noticing a sizeable effect on their markets as more and more consumers, particularly from Vancouver, made the short trip to the United States. No different than today, milk and dairy products were not the main or only reason for making cross-border trips, but they certainly were a frequent purchase. Preliminary studies sponsored by BC producers produced alarming results.

Finally in 1988, Dairy Farmers of Canada persuaded the federal government that the issue was serious enough to warrant attention. Through Agriculture Canada, detailed studies were commissioned for BC, Ontario and New Brunswick. After lengthy delays, the results for BC and New Brunswick have been released. The study estimated that 7.6% of fresh milk and 4.5% of cheese consumption was being brought into BC by same-day Canadian travellers. Comparable figures for New Brunswick were 4.4% and 0.5% respectively. Those studies are almost two years old now and we know by the volume of traffic that the increase has been substantial since then.

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No figures for Ontario have ever been released. One can draw one's own conclusions. The original Ontario study only included Sault Ste Marie in 1988. A year later it was deemed that the study had to be redone. When completed, another year later, it was deemed that Sault Ste Marie was not representative of Ontario and that southern Ontario border points had to be examined. Last week, we learned from the minister's assistant that the Ontario study has been submitted to him—that is by Mazankowski—but findings will not be released in advance of a "solution," which rather disappoints us.

What we do know is that cross-border traffic by same-day Canadian travellers increased by 36% between 1988 and 1990 and is likely still on the rise. We also know



between 1985 and 1990 marketings of milk to the fluid plant in Sault Ste Marie have dropped by 30%. The figure may could be as high as 40%. Last fall, that plant went out of operation four days a week to three. In the near future it could be two, and at that point the viability of maintaining that plant in operation is highly suspect.

Finally, we know that the national market share for milk in Ontario has been reduced by 6% since February 1990 and it will go down 2% or 3% again next August. We look for all sorts of reasons to explain these cuts but have not put enough emphasis on the impact of cross-border shopping on that regard.

Because we have a national system for industrial milk products, lost sales not only affect the province where the losses occur. Similarly, we should not for a moment think that cross-border shopping is not a problem in Quebec or other provinces just because Agriculture Canada did not conduct a study there.

To put the costs in perspective, each 1% loss of national milk production ultimately translates into 200 fewer farms in this country, with lost farm-gate revenues of nearly \$23 million annually.

We cannot quantify how much of these losses are associated with cross-border sales. We are simply making the point that they are contributing to them.

The dairy farm loss is only one dimension. Parallel losses occur for the processing sector, leading to plant closures, and for milk transporters, veterinarians, equipment dealers and feed suppliers. Losing dairy farms has a profound impact on the rural community.

As noted above, leakage under a supply management system is simply unacceptable. A solution must be found.

Why are prices lower in the United States? There is no doubt that prices, after adjusting for unit size and exchange rates, are lower on virtually everything south of the border. In the cases of beer, alcohol, cigarettes and gasoline, the explanation is fairly straightforward: Most of the price differences are due to taxes.

For milk and dairy products, the explanation is not as straightforward. To be as brief as possible, I will outline the contributing factors.

**Made-in-Canada costs:** Simply put, doing business, whether by or other, costs more in Canada. The same fuel that costs consumers less when they travel across the border is a higher input cost in producing milk. Interest rates on borrowed money have been consistently 4% to 5% higher in Canada. Labour costs and most other purchased inputs simply cost more. What critics superficially allege as being an efficiency is not accurate.

**Policy differences:** In many respects, dairy policies in Canada and the United States have a lot of similar objectives. However, how those objectives are achieved makes comparing the two systems like comparing apples and oranges. One of the most fundamental differences is that whereas Canadians operate with production disciplines, the US operates an open-ended support price system. There are no limits on milk production regardless of market conditions. The Canadian government buys all surplus production. Second, the cost of surplus disposal is borne by taxpayers, not producers, in the United States. Both these policies belie the true cost

of producing milk but result in lower farm-gate prices. An obvious outcome of US dairy policy is a very costly surplus removal program. Rather than limit production, the approach until now at least has been to lower support prices. Since 1985, producers in the United States have arguably responded to lower prices by maintaining or increasing production as a means of survival, and they are again heading towards a major surplus situation in the United States.

The previous section alluded to higher interest rates in Canada. Beyond that, US agriculture policy provides access to below-market rates for farm credit. Another significant factor is their deficiency payment program which subsidizes both purchased feeds and homegrown feeds. The net effect, again, is to lower farm-gate requirements and mask the real cost of producing milk.

**Market structure:** There are two levels of comparison to be made; one at the farm gate, the other at the retail level. Price Waterhouse recently completed a study for the National Dairy Task Force. It found that on a cash cost basis, costs were fairly comparable between Canada and dairy farmers in border states. The one big difference was that if a 10% return on equity was factored in, however, most US farmers had a negative return for labour and management while Canadian prices allow for positive returns to labour.

The US dairy farmers involved in this study are living on their equity; the equity is bleeding down. In an attempt to try to stay ahead they are milking more and more cows, trying to do more and more work, which is leading to a surplus situation again in the United States. So they are in a vicious spiral now with the fact that their prices are moving down; they are trying to compensate by keeping their farm cash receipts up by producing more milk, which further compounds the problem.

You might be interested in knowing that the current US farm bill calls for the United States to consider putting in place standby supply management programs if their purchases reach a certain level of overproduction. That is the first time we have ever heard of the US government talking about something like a standby supply management program.

Perhaps more significantly, the study found that one of the biggest factors in price differences between the two countries is processor margins. Processors in the United States have much higher capacity utilization—it is not unrelated to open-ended support prices—and they also have lower margins.

We should also not lose sight of the fact that in unregulated markets retail prices do not necessarily bear any relationship to farm-gate prices. There is no reason to think that retailers in US border areas are not using milk as a loss-leader to build traffic.

**Exchange rates:** As mentioned above, retail and farm-gate prices are not necessarily related. In Ontario, our authority, the board's authority, for pricing only extends to the farm gate. In carrying out our responsibilities, the objective is to establish prices that provide fair returns for producers' labour, management and capital. Wholesale and retail prices are totally unregulated in Ontario.

If one looks back a few years to when the Canadian dollar was valued at 72 cents to 73 cents, US farm-gate



prices for milk were virtually comparable to Canada. At those exchange rates, milk selling for US\$12 per cwt, or hundredweight, equated to \$37.85 per hectolitre Canadian—less than 4% below our class 5 price, and that is the price for milk being used to make butter and skim milk powder. The same US\$12 per cwt translates to \$31.67 per hectolitre at today's exchange rates. Relative to today's class 5 price, which has increased modestly, the difference is 25%. Long-term policies cannot react to short-term fluctuations in exchange rates. Exchange rates are crucial to the whole issue of cross-border shopping and exert tremendous pressure on the entire Canadian economy.

International competitiveness: Ever since Canada entered discussions with the US on so-called free trade, Canadians have been beleaguered with rhetoric about globalization and becoming internationally competitive. Global trade is a zero-sum game, meaning total imports globally equals total exports. If you have a positive trade balance, you are on the winning side; it means that some other country must have a negative trade balance.

Canada was internationally competitive. In 1985, Canada had a total merchandise trade surplus of more than \$20 billion. Our surplus with the US alone was of the same magnitude. Between 1985 and 1989, the surplus has dropped to under \$12 billion and the surplus with the US has declined in lockstep. Exports to the US have increased by 24%, roughly in line with inflation, while imports have increased by 42%.

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Canada's monetary policy has meant that instead of exporting goods and products we are now exporting jobs and job opportunities. There is a tendency to look at details like tax structure, health care, subsidies and labour costs to rationalize differences. In theory, and usually in practice, exchange rates account for all of those factors.

If exchange rates are allowed to find their proper level, normal trade and structural adjustments will occur. Depending on the state of an industry, some goods will be less expensive in one country and others will be less expensive in the other. When a situation develops, or indeed is fostered, where all goods appear to be less expensive in one country, the other country, unfortunately Canada in this case, has serious problems. Consumers are not stupid; they will gravitate towards the lower prices. Not only do we lose Canadian purchases, we also lose a substantial American tourism that used to flow in our direction. What is happening at the consumer level is also happening at the industry level, and that ultimately is a much bigger problem.

Why exchange rates have drifted upwards is hard to rationalize. From a US perspective, it certainly has helped reduce their trade deficit. Is it the unwritten portion of the Canadian-US trade deal? One explanation has been that we need high interest rates to attract foreign capital. High interest rates appeal to currency investors and speculators. This country needs to attract investment in productive resources and that is not likely in an environment of decapitalization.

Canada's economic health depends on our ability to export. Until exchange rates fall back to where they belong,

living and working in Canada is going to be a less happy experience.

Taxes are set and collected to pay for the services all enjoy as citizens of this country, from transportation, education, to health care, to garbage collection and public security. When Canadians go to the US to buy groceries, gasoline, electronic equipment or whatever, they are paying their share of the bill. Only two things can happen as a result of that; one is that the tax burden is shifted. Governments can increase existing taxes which they are loath to do, or charge the taxes in areas which are harder to avoid, such as property taxes. The second possibility is the ultimate outcome is that services will be reduced. These are tragic consequences.

The average Canadian has to be made to understand the effect of their actions. Canada, like any country, is a community of citizens where we all enjoy the benefits and similarly share the costs.

To that end, all applicable taxes, excise taxes and sales taxes—GST and provincial sales tax—should be collected. Furthermore, existing rules regarding duty-free opportunities—for example, being out of the country for 48 hours to bring back \$100 worth of duty-free goods, unlimited, or being outside Canada for at least seven days to bring back \$300 worth of goods, once per year—should be rigorously enforced.

These regulations did not change with the signing of the free trade agreement, although many Canadians have the perception of open borders. The only thing that has happened is the reduction of tariffs on some items. Other taxes still apply.

Along these lines, the British Columbia fast-lane experiment seems like abject nonsense, a carte blanche to smuggle, with the government turning a blind eye. If an honour system is going to be used, it has to be accompanied by an effective deterrent, including confiscation of goods not declared and/or the vehicle. If anything, we need fast lanes for American visitors. Every effort should be made to prevent further expansion of the fast-lane concept for returning Canadians. A fast lane for American visitors would make much more sense.

Dairy Farmers of Canada position: Dairy Farmers of Canada is our national organization that represents milk producers across the country. Independent of the broader implications, Dairy Farmers of Canada views effective border control on the importation of milk and dairy products as an essential element of national dairy policy. It is a federal area of responsibility, and if a key element of dairy policy cannot be fulfilled it places the entire policy in jeopardy.

While the importation of dairy products is administered through the import control list under the export and imports act, there is an exemption for milk and dairy products with a value of less than \$20. Dairy Farmers of Canada believes that amending the exemption to require a stay outside of Canada of at least 48 hours would provide the authority to address the cross-border issue. Failing that, our government needs to look no further than the United States to find solutions. It is virtually impossible for US citizens to bring back milk or dairy products from Canada. If the will is there, it can be done.



While we believe the issues are separate, there is also a very close interrelationship. The dairy sector needs border controls to maintain the viability of national dairy policy and the dairy industry. However, as cross-border shopping increases and becomes more deeply entrenched as a way of life, the impact on the dairy sector grows proportionately.

The secondary effect of cross-border shopping is the reduction in domestic demand. Lost jobs in border communities and lower sales of Canadian products are just the beginning of a downward spiral.

It is our belief that the single biggest factor at play is the exchange rate. We have a situation that puts Canadian prices out of line with those of our major trading partner. Cross-border shopping is only one manifestation of the problem, the bigger issue is probably the erosion of Canada's ability to export and the attendant loss of jobs. Monetary policies, monetary in particular, aimed at fighting inflation may have been effective, but they have also had a devastating impact on the economy. Is this another example of the cure being worse than the disease?

Changing exchange rates is something only the federal government can do. Right now, the Americans are the main beneficiaries of Canadian largesse.

As a country, we have allowed our citizens to gain the perception of an open border and nobody wants to tell them it is not so or that if we want to maintain the integrity of the country, it cannot be so.

Exporting jobs instead of goods and a declining tax base can only move Canada in the direction of what some analysts describe as the process of becoming a third-world country.

There are those who would trivialize this issue. They are wrong. I do not envy you your task. Cross-border shopping is a very complex problem without obvious or easy solutions. While the exchange rate is a major underlying factor, all appropriate taxes and duties must be collected and existing laws on stays outside the country must be adhered to.

I cannot comment whether or not it is realistic to expect an education program to work, but legislators, bureaucrats and taxpayers need a better understanding of how public finance works. And journalists as well.

Let me conclude by remarking that cross-border shopping has already had a serious impact on Canada's dairy sector at both the producer and processor level. Unless the real problem is addressed, I have concerns about the potential for a dairy-specific solution. Let me assure you the dairy and dairy farmers will assist and co-operate in every way possible. Thank you for your attention and for creating the opportunity to express our concerns.

Just in closing, Claude Chartrand representing northern Ontario has some particular concerns about the Sault Ste Marie marketplace and he will just make a few comments in addition to mine.

**Mr Chartrand:** Representing northern Ontario poses some particular problems. I am sure your confrères have talked about distances in northern Ontario. To put that in perspective, I live some 350 miles from the closest border point on my own farm. That is roughly the same whether I am talking about Cornwall, Kingston, Niagara Falls or

Sault Ste Marie and I am part of northern Ontario, 100 miles north of North Bay.

In Sault Ste Marie there has been a polarization of opinion as you are probably well aware between retailers, producers and consumers to some extent, to where we see a loss of between 30% and 40% of our milk sales there, and it is not just milk. You can imagine the effects on myself, for instance; I expect my gross income to decrease by 3% in the next year. You can imagine, as a resident of northern Ontario, this kind of effect. We know that you are going to have some very hard decisions to make about Sault Ste Marie, whether to pour in billions of dollars maybe to keep a seal plant, or the same amount of dollars will have to be there in welfare or some sort of social easing of the situation if unemployment gets worse. But it means that between 30% and 40% of Sault Ste Marie is not really part of the economy in northern Ontario. It is more part of the economy in the States because that is where they do their shopping, that is where they are paying their taxes in the major part. Whether we are talking about beer, liquor or cigarettes, provincial sales tax is not paid at the border and this is causing quite a polarizing of opinion. That is where the major part of discussion has been with producers at meetings in northern Ontario in the past week: about cross-border shopping and our decreased income and what we can do about it. I sure appreciate the opportunity to make these comments here, Mr Chairman.

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**The Vice-Chair:** Thank you. We fully agree with your statements, and that is why this committee was one of the first agenda items after setting up our preliminary budget report. We felt this was the most urgent matter that the province of Ontario had to be looking at next. We appreciate your input. Going through your brief, it is very informative. You are actually the first group that got here, one of the particular areas of milk.

We do have some questions from the committee and we have approximately 18 minutes until 11. We have another brief coming in and the bells will be ringing around 12 o'clock so we are going to have to cut that one short. We have to move on. If Mr Kwinter would ask one question; if he has another question, put up his hand again and we will try to rotate so that everybody has a chance.

**Mr Kwinter:** I have got a half-dozen questions.

**The Vice-Chair:** Oh, no, not section a, b, c and d, if you do not mind.

**Mr Kwinter:** Mr Chairman, seeing the constraints that you are putting on my questions, I have to pick out the one that I really want to talk about. I just have to take a second to see which. Let's talk about article XI.

When we talk about the import control act or the list, one of the problems, of course, is that the Canadian milk producers asked to have ice cream and yogurt put on the list. The Canadian government agreed, they put it on, it was challenged by the United States. It is my feeling that if that challenge succeeds we are really on the slippery slope to getting rid of supply management.

Regrettably—when I say this I am not trying to be partisan or political—after the Canadian delegation went



to the GATT talks in Belgium and came back, I asked the minister in the House, given the fact that these talks had collapsed and article XI was not even addressed—he did not seem to know that—I said to him, “What are you going to do about it?” He said: “Well, we are happy with it. We are happy with article XI as it is. We have no real interest in strengthening it.” And that was that.

The question I have is what would you suggest should be done to try to make sure that we have a strong enough article XI to allow the milk producers to put products like ice cream and yogurt on it?

**Mr Core:** Dairy Farmers of Canada made a presentation to the federal minister a number of months ago. He said to us, “If we have to do something about article XI, what is it that needs to be done to it?”

We submitted a major presentation to him with the support of other supply management groups across Canada which became the fundamental position of the Canadian government in the current GATT discussions. The federal ministry has assured us, and our ongoing discussions with the trade negotiators have also shown, that they have been pushing very strongly on getting article XI clarified and strengthened so that it will be functional in the future.

Our position has always been, however, that if that is not achievable, then give us the other rights other countries have under the GATT agreement. We would be quite happy to have a waiver like the United States has, to be able to protect our borders with a waiver for dairy products or eggs or poultry or whatever. The Europeans have chosen to use variable import levies. Even though they are not allowed under GATT, they have been allowed to use them and if they become legitimate under the new GATT agreement, then we will use variable import levies.

The question is, with our trade agreement with the US, what impact might that have? We have simply said that if this GATT discussion is going to be about creating new rules of trade, we think that one of the new rules of trade should be article XI.

I had some representatives of Korean agriculture in my office recently and they commented that their government is very interested in pursuing article XI now. Some of the nordic countries are, and there is a line through the new emerging European position suggesting that they are giving more serious consideration to how article XI could be used for the kinds of programs that they want to use.

**Mr Kwinter:** In closing, may I make a suggestion that you meet with the Minister of Industry, Trade and Technology. Explain it to him and take along some pictures and try to inform him as to the issues so that at least—

**Mr Stockwell:** Diagrams.

**Mr Kwinter:** —if he goes to a meeting he will know what he is talking about.

**Mr B. Ward:** I am a little bit troubled by some of your comments and I have a number of questions, but I will just ask one which troubles me the most.

In the discussion we have had not only on this issue but other issues on government involvement, etc, primarily from Conservatives, we have been led to believe that America is a free-enterprise system with as little government involvement

as possible. According to some of your comments, the fact may not be true when it comes to the dairy industry.

I would like you to expand a little bit. I will not worry too much about the European Community because this is a cross-border shopping issue. Could you elaborate a little bit on the internal policies of the American government when it comes to the dairy industry? In fact, is it a free enterprise or is it government-supported, and to what degree?

**Mr Core:** Through Dairy Farmers of Canada, we conducted a major study through the firm of Grey, Clark, Shih & Associates in Ottawa on the level of hidden subsidization to the US dairy industry. The Americans have put in place a very, very expensive agricultural policy that is aimed at supporting their domestic agricultural industry. We went through, I cannot remember the number of programs that are documented, but it was well over 100 different programs that indirectly give support to the US farmer, be it dairy farmer or grain farmer, it does not matter. We went through them and then proportioned that against the dairy industry.

There are programs such as the export enhancement program, which the government uses to subsidize the export of surplus products out of the United States; the food stamp program, where they subsidize the use of food products to their domestic population that require food stamps; the grain program that we mentioned, feed grain set-aside program—they have a massive conservation set-aside program where farmers are being paid to take land out of production for conservation purposes. The federal irrigation water scheme in the United States is a federal program which highly subsidizes the value of irrigated water for farmers throughout the southern United States.

When you take all of those programs, the closest you could come in proportioning those out to the dairy sector in the United States was that it represents a value of 12 to 13 cents a litre to the US farmer in hidden support. It is not money that may directly appear on his income statement but it has lowered his costs or given him other sources of income. So that is 12 to 13 cents, which is about 30% of the price they receive for milk at the farm gate in the United States.

In Canada we are not clean in this situation. There are supports to agriculture in Canada as well. The only direct one is the national dairy subsidy program in Canada which accounts for about 6% to 7% of our producer income, nowhere near the high level of subsidization in the United States.

The United States is not a free trader in agricultural commodities, it never has been and it never will be. They have no intention of being that. However, they have the intention of creating rules which they hope may give them some advantage in trading with other parts of the world.

I was in Washington a year and a half ago at the Outlook conference and heard Clayton Yeutter say: “I don’t know why our domestic producers are so concerned that we are going to dismantle our domestic support for agriculture. We have no intention of doing that. We are simply going to lower the export enhancement program of ours and other countries.”

It is not a level playing field. You can take away export subsidies and that does not create a level playing field. The



ted States has a very protectionist dairy industry. In , right now the organization that represents dairy producers in the United States is lobbying intensely against President Bush's request to extend the trade negotiations another two years because they do not want to lose the protection they now have under their waiver, and they are afraid that a positive GATT round would eliminate that waiver and then they would have to use something like article XI, which they do not want to do.

**Mr B. Ward:** Thank you. I am shocked, Mr Chairman, that America is not the bastion of free enterprise I thought it was.

**The Vice-Chair:** I can see that on your face.

**Mr B. Ward:** All these years I have been misled by Conservatives.

**The Vice-Chair:** That was a very good answer, really. It is going in Hansard so that we have a copy so that we can exchange it with other members.

**Mr Sutherland:** You talked a little bit about a drop in market share quota, what it would result in, the number of farmers being lost and the number of dollars being lost. I said you first highlighted the problem in 1986. Do you have an estimate since 1986 of how many dairy farmers have gone out of business and how much money that has meant in losses to the Ontario economy?

**Mr Core:** Not specifically, because part of our frustration has been that the federal government's studies on the St. Lawrence cross-border issue have never been released. The numbers for other border crossings, as I say, the minister has not released them. So we have not been able to quantify specifically what the impact was, but I have no reason to believe the numbers from BC, for instance, are not reflective of that province. I know the border crossings in the city of Sarnia, where I reside; my father recently talked to the supervisor of customs there. The number of declarations at the border has just risen far more dramatically even than some of the numbers appear in this document.

**The Vice-Chair:** If the rest of the committee does not mind, to get to the third party—Mr Stockwell is two more minutes—but is it all right if I skip ahead so we get the viewpoints from the third party also?

**Mr Stockwell:** Thank you, Mr Chairman. You talked at great length and made a lot of emphasis about the exchange rate. You know I have always had a difficult time understanding or at least accepting the exchange rate argument. You have a 15-cent break now. What do you want, 25 cents?

**Mr Core:** If you do not mind, Mr Chairman, I will ask Mr Gould to respond to the question. Peter?

**Mr Gould:** I guess we are trying to suggest that the exchange rate should find a level that makes goods produced in Canada competitive with its main trading partner.

**Mr Stockwell:** What is that rate? That is what I am asking.

**Mr Gould:** I would suspect something in the order of 75 cents Canadian relative to the US dollar would be adequate. What we are doing through our various policies is inflating the value of the Canadian dollar which, all other things considered, makes goods produced in Canada uncompetitive with those in the United States. It is as simple as that.

**Mr Stockwell:** But the argument is made that you have a 15-cent break now, and you are saying that to be competitive you need a 25-cent break?

**Mr Gould:** It is not a break. Exchange rates take all the factors given in the economy irrespective of what they are, you know, health care, different tax structures, all those sorts of things. If you are going to produce steel or forest products or high technology products, this is the exchange rate that allows you to compete. If you allow that exchange rate to drift upwards for what I would argue are non-economic reasons or for artificial reasons, you are putting your economy out of line with that of your major trading partners. As we tried to illustrate in the presentation, if you go back not too many years—and it is even true today, we still are competitive—if you have a positive trade balance you are competitive, but by losing that competitiveness your relative position deteriorates and that is the process we are in right now.

**Mr Jamison:** You mentioned access a little earlier on and how under some GATT decisions made back in the 1950s certain commodities—we became restricted in our ability to have even that so-called free trade situation developed, especially for certain areas. I wonder if you could expand on that a little further for me so that the committee here would have an understanding of that particular concern.

**Mr Core:** That reference was to a special waiver the United States achieved under the GATT rules which allowed it to practise certain protectionist policies. They are allowed to address that to the dairy industry, the sugar industry, I believe, as well as some very restrictive import restrictions in the US because GATT is all about opening up trade. The Americans said they were going to pull out of the system unless they achieved this waiver after substantial lobbying within the US and they were given this temporary waiver which is still in place today.

That is just an example of the kinds of things that have happened under GATT that we hoped this Uruguay round would sort out. We have been supportive of GATT discussions, of trying to get the same fair rules of trade for all the partners in GATT and do away with special exemptions. That is what the GATT negotiations are about. They are creating the rules of trade. We simply feel that article XI, for example, is that if a country does want to practise a domestically oriented policy towards particular agricultural commodities—and all countries have particular commodities they want to do that with—then we should all play by the same rules. We feel with a rule like article XI, for example, it may evolve.

Just as an example, you may not realize it but the total imports of products into the Canadian dairy industry, if you take our total marketplace, somewhat slightly over 3% of our total dairy consumption is imported product, be it



cheese, yoghurt, ice cream or whatever. The total imported product into the United States is below that and the total imported product into the EC is even less than the Americans'.

So we are practising supply management, domestically oriented policy, but because we are obeying the rules, we are allowing more access to our market than other countries which accuse us of being too protectionist. That is what really infuriates us. Canada is pointed at in dairy and supply management as being protectionist and something that has to be changed, whereas those other countries, the Europeans and the Americans, are even more protectionist than we are. We think if we all played by the same rules, all of us would be further ahead in a more stable dairy industry.

The dairy industry around the world is a domestically oriented industry only if you take all the global trade and dairy products. The last figures I saw would indicate that between 7% and 9% of dairy products trade globally, which is a very small percentage of the total marketplace. Most dairy industries in most countries are domestically oriented because they are fresh products, they are perishable and countries view dairy industries as being a fundamental part of their food policies in most cases.

**Mrs Sullivan:** I was very interested in your remarks earlier on subsidies. I wanted to ask another question which relates to some of the information that is being put before the committee from other groups in different industries and sectors, and that relates to the role of the distributor or the processor in the pricing of the product. You have alluded in your statement to the retail prices being quite different from the farm-gate price. I wonder if you would comment on what the difference in the add-ons through the processing and distribution would be in Ontario in comparison to comparable areas in the States.

**Mr Core:** In the National Dairy Task Force, which I am a member of, we try to quantify those. It was almost impossible to do it at the retail level. They did some studies at the processing level and found that the margins—I do not mean profit margins, I mean cost margins—the cost margins of Ontario processors were somewhat higher in the United States. They identified two main causes of that, one being the fact that plants in the US have rationalized to a large extent, and their through-put or utilization is significantly higher than that of Canadian plants because we are still going through some consolidation and rationalization of processing plants. The other factor is the size of the plants. Just the physical size of processing plants lends some efficiencies. The US market is 10 times bigger than ours and it is logical that they are just going to be bigger.

So the indication was that there are some marginally higher costs on the processing margin, but they are explainable. It is hard to quantify retail prices because retail prices, so much in some products, are loss leaders: 2% milk in Ontario is a loss leader and it fluctuates all the time depending on what the pricing practices of the retail stores are. As well, butter falls into that category quite frequently. So we do not have evidence of information on retail markups.

**The Vice-Chair:** Mr Smith, I believe you want to make a comment on Mr Jamison's question. I sort of cut off and went on to the next question.

**Mr Smith:** Thank you, Mr Chairman. It was just a further clarification on waiver 22. This was given to the US to have it agree to join in the current round. It covers dairy products, cotton products, sugar products and edible oil products including peanuts, so it was a very widespread exemption from the GATT rules in that area. I just thought the committee should be aware of the magnitude of waiver 22.

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**The Vice-Chair:** I want to thank you for appearing before us. It was very informative. This is what we need in order to come to some conclusions to end this problem with cross-border shopping.

**Mr Core:** If there is anything further that people would like to have information from us on, we encourage you to call us and we would be happy to co-operate with you. Thank you very much for this opportunity.

#### ONTARIO BORDER COMMUNITIES TASK FORCE ON CROSS-BORDER SHOPPING

**The Vice-Chair:** Welcome again to the standing committee on finance and economics. I am glad to see you back again. You appeared before this committee on pre-budget consultation. It was very informative. This is one of the areas that we feel is very important to Ontario right now, cross-border shopping. I see by the families that everybody seems to be coming from the border towns there.

Would you please identify yourselves from the left so that we can get the right so we all know who you are.

**Mr Commisso:** Tony Commisso. I am from St Catharines, and I am representing the St Catharines chamber of Commerce and Shop Ontario.

**Ms Logan:** Gail Logan, general manager with Sault Ste Marie Chamber of Commerce.

**Mr McCartney:** I am Gerry McCartney with Sarnia-Lambton Chamber of Commerce.

**Mr Jacques:** I am Mark Jacques, the executive director of the Windsor Chamber of Commerce.

**The Vice-Chair:** Okay. If you could present your brief here now to us.

**Ms Logan:** Thank you. The Ontario Border Communities Task Force on Cross-Border Shopping is very pleased to meet with your committee regarding the complex issue of cross-border shopping and its impact on government, business and residents of Ontario.

The task force has representation from Cornwall, Frontenac, Erie, Niagara Falls, Kingston, Port Colborne, St Catharines, Sarnia, Sault Ste Marie, Thunder Bay, Welland and Windsor.

As you will recall, our task force presented a brief to the finance committee at the end of January and provided background information on the issue and recommendations for the provincial government to consider relative to taxation policy. The recommendations are as follows: that the Ontario government immediately reduce the provincial



on gasoline, based on a zoning formula; that the Ontario government negotiate with the federal government to reduce the federal tax on gasoline, based on a zoning formula; that the Ontario government negotiate with the federal government the implementation of a cost-effective system to collect provincial sales tax on declared goods entering Ontario at border entry points.

Our purpose in meeting with you today is to provide you with an up-to-date situation analysis regarding the facts of this issue. We will also provide information on programs and activities currently being implemented in border communities throughout the province as well as recommendations for action. A number of representatives from our task force are in attendance today, and we are very eager to share our thoughts and concerns with you. We would also be happy to explain in greater detail specific programs that are under way in each of our communities.

Regarding the facts, the traffic count of same-day visits from Ontario has gone from a net inflow in the second quarter of 1987 of 1.4 million people to a net outflow of 1.5 million people in the second quarter of 1990. The number of people making same-day trips to the United States from Ontario continued to increase by 30% in 1990, and it is anticipated that 1991 will show the same or an even greater increase.

Estimates of lost retail sales for 1991 in Ontario are expected to be in excess of \$1 billion, which represents an approximate loss of \$80 million in sales tax revenue to the province. An economic impact model used by Ernst & Young in their study of the economic impact of cross-border shopping on the city of Sault Ste Marie determined that for every \$1 million in expenditure leakage to the United States from Sault Ste Marie, Ontario, 7.2 jobs are lost in the community. This results in lost income taxes, lost municipal taxes, and increased burden on municipally, provincially and federally sponsored social programs.

Ontario consumers are making significant purchases in the United States of gasoline, groceries, liquor, beer and cigarettes, along with the big ticket items such as automobiles and boats, building supplies, clothing, linens—the list goes on.

Ontario border communities are showing severe signs of depression as retail and service sector businesses are closing at an alarming rate. There has also been a sharp decline in US tourists visiting Ontario during the past two years. Many reasons have been cited; however, the most frequent reason given is the high cost of gasoline, meals and beverages, all items which are subject to considerable increases.

Ontario businesses are currently on an 8% price disadvantage with their US counterparts as provincial sales taxes are not collected on goods entering Canada at border crossing points. Retail pricing differences on gasoline in border cities throughout Ontario appear to vary only by a few pennies per litre; however, the difference in price between Ontario and the US is approximately 17 cents per litre, the majority of which is provincial and federal taxes. Border communities in Ontario have lost gasoline sales in excess of 295 million litres annually and as a result the

province of Ontario has lost almost \$34 million in tax revenue.

It is estimated that the province of Ontario will lose in excess of \$114 million in tax revenue for 1991 as a direct result of cross-border shopping, a problem which will continue to increase unless government immediately addresses this issue. Mayors of Ontario border communities met recently to discuss this issue and have formed a task force to address the problem.

Regarding situation analysis, the following information has been provided by the communities of Kingston, the Niagara region, Sarnia and Sault Ste Marie. You will also find, attached to the brief, information from Windsor, which Mr Jacques from Windsor will present.

For Kingston, available evidence is largely anecdotal to date. However, there have been well-publicized stories of long lineups of cars full of Canadian shoppers at the Lansdown border crossing returning from the Salmon Run Mall in Watertown, New York. As well, a large percentage of Canadian cars has been observed in the parking lot at this US mall. The recession and international competition have had a negative impact on local retail sales, causing a number of store closures.

What is Kingston doing and what are the results? The Kingston District Chamber of Commerce, with the assistance and support of the downtown Kingston business improvement area, the Kingston Area Economic Development Commission and area businesses, has engaged the national consulting firm of Ernst & Young to conduct a study to assess the impact of cross-border shopping on the local economy. The study will be completed at the end of April and an action plan that will consist of program and policy initiatives will follow.

Kingston is recommending the following:

Awareness campaigns calling for consumer patriotism are an inappropriate measure that only serve to publicize the perception that all things are cheaper in the United States. Canadian consumers deserve competitive prices. We must learn if indeed prices are lower in the US, or on what types of goods prices are lower. Then we must learn why, get competitive and change things. We must deliver lower prices or lose our retail industry.

At this point I would like to turn it over to the various individuals who are represented here today and ask them to comment on each of their areas.

**Mr Commisso:** Mr Chairman, members of the committee, I would like to thank you for this opportunity to make our presentation this morning. Once again, I would like to restate the estimates of over \$1 billion in purchases by Canadian consumers across the border in the US. Niagara region's share of this we estimate to be about \$150 million. It appears there has been about a 20% increase over the previous year. The statistics on same-day visits to US from Ontario since 1986 have increased: 1986-87 by 12%; 1987-88 by 22%; 1988-89 by 27%; and 1989-90 by 26%. The alarming part of this whole thing is that there is a steady increase. There is absolutely no sign of reduction in this phenomenon, and unless something is done about it, we feel these figures will continue to increase.



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The impact of this on local retailers has been quite staggering. The tax structure at all levels is very much higher in Ontario than in the United States. This creates increased costs for retailers to their consumers and lessens their competitiveness. Introduction of market value assessment will only escalate this problem, as the retail sector will be hardest hit by increases in real estate taxes. Taxes on beer, alcohol and cigarettes in Ontario have had an effect of doubling the costs of these products to Ontario consumers.

Many people in border communities are buying these products in the US and importing them without paying duties and taxes. In cases where taxes are paid, only federal taxes are collected at the border. Gas taxes in Ontario are double those in the US; consequently, many motorists fill up their tanks in the US at a much lower cost.

Supply management of many agricultural products also adds to costs of products in Canada; for example, eggs, which carry a marketing board fee of 17 cents a dozen. Also poultry, where quotas are set at much lower levels than we can consume in Ontario, thereby forcing us to import poultry from Manitoba and Quebec, not allowing us to take advantage of economies of mass production. Dairy products are also controlled by dairy boards. I do not want to go too deeply into that because the Ontario Milk Marketing Board was here just before me and I am sure they have explained the dilemma of US subsidies and other factors that impact on the cost of milk in Ontario.

Much of the media coverage of cross-border shopping is based on sensationalism, not fact. Many items have been compared by various retailers, and although some items are cheaper in the US, there are a similar number of goods that are cheaper in Canada. Several grocery surveys showed a similar number of products being lower in Ontario than in the US. An average shopping basket of grocery and drug products showed total costs as being lower in Ontario.

Recent television coverage showed people purchasing video games in the US, and claimed that they were half the price of those in Canada. There have been many reports to the contrary. In recent promotions, many Canadian retailers have been selling these same video games lower than they are in the US.

Good marketing practices by businesses in the US have helped to draw Canadians across the border to buy their products. Ontario border communities have been flooded with advertising of all kinds. There have been no co-ordinated efforts on the Canadian side to increase the number of Americans who shop in Ontario, or try to counter some of the American advertising to keep Canadians at home.

My recommendations are as follows:

First, a comprehensive study is required. The first thing that should be done about this problem is to gather all the necessary information in order to make proper government policy and marketing decisions. All major product categories should be compared and the cost structures analysed. Also, what are the reasons that people shop in the US? If we can gather this information we can start to address the problem on a more comprehensive manner.

The second recommendation is that a retail support mechanism is required. The retail sector in Canada has no formal support mechanism as do the tourism industry and the manufacturing industry. New York state has a business development office that works with the retail industry to develop this economic sector. Such a mechanism should be structured in Ontario to co-ordinate the efforts of government and business in dealing with international trade issues.

My third recommendation: a reduction in the gasoline taxes at border cities is required.

Fourth, Canada Customs must increase their workforce to ensure adequate inspection of vehicles returning to Canada.

Fifth, provincial sales taxes must be collected on goods entering Canada at all Ontario border country points.

Sixth, government should develop a subtle awareness program to inform consumers about the reasons for differences in price between Canada and United States and the distribution of taxes that are applied; eg health benefits, workers' compensation and unemployment insurance.

I would just like to outline a few things that we have been working on in our community. We have been trying to gather together all the retail organizations in the Niagara region to put on a co-ordinated marketing effort to counter the US advertising that is inundating our area every week. We have a lot of good plans, although it takes time to develop them without the assistance of the various agencies which I have recommended be put in place to help co-ordinate all these actions. So I guess in order for our community to continue to fight this struggle we need the support of the government agencies to assist us in any way possible.

I would like to turn this over to Samia to give the portion.

**Mr McCartney:** Mr Chairman, ladies and gentlemen, I again thank you for allowing us this opportunity today. I am not going to give you a bunch of statistics. I am sure you have had a million of them already. What I would like to try and convince you of is the problem that we have because we are on the front line. It hurts and it hurts a lot. We are losing jobs. You can read the numbers. We have a really odd traffic-flow situation where we were up 30% one time and now we are down 35%. That represents a multimillion transfer of bodies going out of the country instead of coming in and you know what the impact is economically.

We think—and please correct me if we are wrong—that the governments, both federal and provincial, obviously are having a difficult time with this because it is not an easy problem to address and it is very complex. The shopping buggy comparison thing that we see in every newspaper in the country is so easy it is almost elementary but it does not serve, it does not really get to the root of the problem.

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What I would suggest to you and what I would hope you would listen to today is that the problem in border communities is not unique to border communities. The simple math that I know tells me that 80% of us, of Canadians, live on or near the border of the United States of America.



ronto—I think your own papers delivered some information a couple of weeks ago that indicates that the city of Toronto itself lost \$240 million in retail sales to Buffalo, New York, unless the Niagara Escarpment had a sudden shift in the last couple of weeks, Toronto, as I remember, was not at the border. That is the most vivid example I can give you. It hurts all of us, so please try not to look at us as if we are isolated, as if it is only going to be a problem for Windsor, Sault Ste Marie, etc.

Currently, the bigger part of the problem in my view—and I am saying this only because I am in front of you today; if I were in front of a federal commission, I would name the provincial government—but we think the larger problem is the feds, quite frankly. The collection at border crossings is under their jurisdiction and we understand that. As we sit here and remind you that you are losing your 8% PST by not collecting it, clearly the feds are losing their 7% GST plus the various duties by not collecting at the border crossings.

So we have this huge problem and you are the losers along with us. I think the point that we could make most emphatically is that we are all in this together. It is not the retailers, it is not the chambers of commerce or the mayors, it is you and I and the province of Ontario that are losing this money in big gobs, and it hurts.

We have had examples, and, yes, we have a number of initiatives in our community and we think we have a responsibility, as do the mayors, as do the federal government and yourselves, to put programs on the table that educate and make people aware. But it is this euphoria that is growing by leaps and bounds every day that suggests to the average consumer—and you had some marketing people in front of you a moment ago. A year ago, the problem was only gas and eggs and milk and chicken and dairy products and so forth; and by and large that was true, and every once in a while, there would be an incidental purchase of a pair of shoes, a T-shirt or an appliance. It is not like that today.

I can tell you, and I invite any of you to come down to a border crossing and look at the enormous quantity of goods that come back that are far beyond those parameters now. In fact, the whole field has opened up and the common perception is that if those things are cheaper and I can buy my booze and cigarettes and gas etc, it must be that everything is cheaper over there. You heard about some US leader advertising that the Americans are very good at serving their consumers, with no disrespect, are a little bit naïve in that regard, and they assume that if milk is 99 cents in Port Huron or Sault Ste Marie or Windsor, because of their loss leader approach, it must be that way every day of the week. In fact it is not, and we all know that.

Where we need your help is (a) to understand what the problem is and (b) to recognize that it is your problem too and that we are losing millions and millions of dollars in our tax revenues. I am afraid the situation is going to get worse before it gets better. If you have studied the American marketplace and know who the big kings are as far as retail is concerned, I can tell you without exception that at one border community in Ontario will not have a Wal-Mart in it within the next year. Wal-Mart is the king. They

knocked off Sears, they knocked off K mart and they are going to knock us off too.

Have any of you—and I know probably few of you have ever tripped to the United States for your vacation—noticed the propensity for growth in the area of factory outlet malls? You know what they are. It is big business. I will also guarantee you that there will not be one border community in this room or any other in Ontario that will not have a significant factory outlet mall across the border.

If you want to talk countervail and dumping, I have been told by the vice-president of the second-largest retail firm in the United States that they now, in their marketing plans, through their buying offices, are targeting border communities. God bless these guys. They are really good merchants, you know. They are targeting the border communities for dumping all their second-class, lower-end, scratch-and-dent type goods because those dumb Canadians are going to come over and buy them in spades every day. That hurts, that really hurts. But you are hurting too.

I would ask for some help. We will do our part. I think we can educate our retailers, I think we will try to educate the consumers and Lord knows we are all trying to educate our mayors. If we can do that effectively, then you need to help us in some regard as well, because it is partly your responsibility. I will remind Mr Kwinter, whom I had as a guest for lunch a year and a half ago, that the very restaurant we dined in, which was on the border, which we are very close to, is no longer there. Five gas stations that were in our community a week and one half ago are not there, and two tire companies, very significant, large ones which used to do a lot of international business, are not there.

One of the things, if I could ask you to transfer this message to the Minister of the Environment, is it would be so much easier for the tire companies in Ontario to swallow the \$5 in-out tax on used and new tires if they could say to the consumer, "I know it hurts, and I know you've got this price to pay, but look at the effect it is having on our environment, look at the positive things that are happening as a result of this tire tax." But they cannot say that and we all know it.

So if we are going to have these taxes that are unusual and extraordinary, let us for God's sake please do something with them so that they are creatively and constructively handled and we can then say to our consumer, "At least you're getting this benefit out of it." Right now they say, "Where's the benefit?" Accordingly, the people who want to buy tires, which is a multibillion-dollar industry in this country are going guess where? Thank you very much for your attention.

**Mr Jacques:** I am going to describe the Windsor situation, which probably is a unique community because of the size of the border community which it borders on, but I am not going to describe also my presentation. Unfortunately, it did not get included in the rest, due to some time constraints, and I am not going to read it. What we have developed, and I think has developed in every community, is more than a one-stage strategy in terms of lobbying for government support. We have also always taken the initiative that there are some things that businesses have to do, that our communities have to get involved in, and each one



of us here today, and all the other border communities which we represent, I would suggest, have taken an initiative, are working very diligently within their communities. In fact, I know that you have a piece that was just passed around here. That is the type of thing that is happening in every community across the country—at least across the province—some more advanced than others.

What I do want to stress is that it is not just a border region problem, that it is not a business problem, that it is all our problem. We have described for you—the last page of my presentation talks about focus of government contacts—the need to create a more level playing field. We are going to have to do some things as chambers to help our businesses become better marketers or to find their product at a reduced price so that they can merchandise it properly.

But generally, we have not distinguished our approach to you from that which we are making to any other group which has a vested interest in this. What we are saying specifically is that there are some issues that are related to the federal government, there are issues that are related—and some of these things are described here—to the provincial government, they are related to municipalities, they are also related to businesses as a whole. There are some, I might add, that have to be addressed at the consumer level.

One of the things that I have to do, and we were talking about it briefly before the meeting here, is get across the understanding that it is more than the economic impact directly related to retail sales, job losses, the tax collection and associated duties. What it affects is deeper than that. It is things like our charitable organizations because there are organizations that give significant contributions from a corporate level, their employees do. If we have job losses there, we have also a significant reduction in those charitable contributions that go to communities, that help communities thrive and support the mechanisms that are provided to them by the provincial, federal and municipal governments.

Things like amateur sport sponsorships within communities—if you do an estimate, and I think one of the communities here did a quick survey of people around the retail task force committee. What was that Gerry?

**Mr McCartney:** It was \$475,000.

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**Mr Jacques:** It was \$475,000 that just their group had contributed to amateur sport sponsorships within the community. When those go down the drain, the burden comes back somewhere. Somebody has to fund it or we lose those services. If I could add anything, because I really do not want to read the reports—you can do that yourself—the statistics are staggering. What we have to do is recognize that it is a national, provincial and municipal—and it goes down to the individual level—concern. Anything that we can provide you with to help you in your assessment and developing plans to address it, I would be most pleased to share with you.

**The Vice-Chair:** Thank you. We have got just until 12 o'clock. When the bells ring we will be leaving. It is a point that we have all got to vote in the House. So if you see us all taking off when the bells ring, that is the end of the question period.

I appreciate your comments. I had brought that up earlier, that a lot of people do not realize the charitable work that goes on. It could be, say, Tim Horton's baseball team etc. The handout that just came around is something I just put together. "To Shop Ontario" does not come on the editorial page with the letters to the editor.

But the one thing I have seen now is that people in the Niagara area are taking a look at the problem that is creating with stores closing. The store down the street where someone was used to shopping at is no longer there. They either have to drive a little bit farther or they just do not have the selection any longer. Representing a rural area like Lincoln, I can see if the small hardware store in the country closes up, then somebody has got to drive to town. If they do not have the selection there, they have to go to another store. It is very important. The business community is part of the community and we cannot lose any part of that particular community.

Okay, I am the Chairman. I am not supposed to be making all these comments and we have got quite a few questions here. Mr Ward.

**Mr B. Ward:** Just one question each again, Mr Chairman?

**The Vice-Chair:** Yes, one question each and then we will put your name back on the list if—

**Mr B. Ward:** If we have time.

**The Vice-Chair:** —if we have time, yes.

**Mr B. Ward:** The one I would like you to expand on and I really do not think it has been looked at in great detail that I can find yet, is the concept of an easing of the gasoline tax and a phased system or a zoned system. What I cannot rationalize in my mind is how do you justify a lower gas tax and where do you draw the line. Have you given some thought as a group on how these lines should be drawn, how these zones should be formulated? As an example of my concern for this system—and perhaps you could even elaborate on this as well—if you take Brantford as a zone that would have less gasoline tax, Burford is just outside Brantford. Would they be included, and if they are what about Cathcart, which is just beyond? And if they are not, how do you justify to the people in Burford that gasoline is cheaper in Brantford than it is in Burford, which is just outside the community?

**Mr McCartney:** The short answer is you do not know. These lines are very arbitrary no matter who selects them and no one is going to be 100% correct. Follow the theory though, if you will, that regardless of the increment whether it is 10 kilometres, 20 kilometres, that really is irrelevant; the point is that if one goes from zone 5—and let's say, for argument's sake, there were five zones created, each one with a 1-cent difference—is it going to be that much of a problem for the individual who lives, say, in a fictitious zone 6, is he or she going to make the trip to zone 5 for 1 cent a litre? Will 5 go to 4 for 1 cent per litre?

**Mr B. Ward:** Is that what you are suggesting, that the zones be 1 cent?

**Mr McCartney:** Exactly. Now in a perfect world what we would like to see is 1 cent per litre from the fed-



cent per litre from the province. If you had 5 cents that the federal government was forgiving in the border communities, and 5 cents that the provincial government was forgiving, you end up with a dime per litre. A dime per litre is fairly significant. I can tell you that most people in my community, and I think it would be true in most, if you took 10 cents a litre off their cost—and that is at the heart of the border; it is only 9 cents at 40 kilometres out and 8 cents and so forth—you would probably prevent about 50% of the people who use gas as the trigger mechanism for going across the border from going over there because it turns out to be about a buck and a half a tank savings at yesterday's prices. No, it went down two. At last week's prices you would save a buck and a half. Big deal. I tell you, I will not sit on that bridge or anybody's bridge for a buck and a half. To save that is not worth my time, and I do not think it is worth most people's time.

So you follow the theory? And no line is going to be correct.

**Mr B. Ward:** Yes, I understand the theory. So you are suggesting 40 kilometres, is that what you said?

**Ms Logan:** In our last recommendation, if you recall, we looked at 10-kilometre increments and I believe the recommendation was for a 50-kilometre maximum. We were looking at a 2-cent graduated reduction.

**Mr B. Ward:** A penny from the province and a penny from the feds.

**Ms Logan:** Matching contributions.

**Mr Kwinter:** Mr Chairman, can I ask your indulgence to get a clarification?

**The Vice-Chair:** Supplementary.

**Mr Kwinter:** No, not a sup; I just want to get a clarification, but I do not want to consider it as my question.

**The Vice-Chair:** Is this your first question, to me? Next. Sorry, Mr Kwinter.

**Mr Kwinter:** There is something here that puzzles me, and it is totally contrary to what you are talking about and what you are trying to do. On page 12 it says that, "Sault Ste Marie, Michigan residents who traditionally have lived in friendly harmony with their Ontario counterparts are currently expressing strong anti-Canadian sentiment as a result of the increased shopping in their community," which I just cannot understand. Your whole argument is you want people to shop in your community, you want to get Americans shopping here. Why are they unhappy because we are going there? You would think they would be ecstatic.

**Mr McCartney:** That depends, I would think, whom you ask. I would suggest that if you asked American retailers, they are ecstatic. The other consumers—you see, with access comes problems—volume, parking, all those good things. I will take that problem any day of the week, frankly, but they are experiencing problems in the smaller communities. Pine Grove Street in Port Huron used to be a quiet, sleepy little street that sort of went nowhere. It was the way to go downtown and another way to follow the lake. It now has 37 gas stations in about six blocks and 82% of their volume comes from good old Canada. It

becomes Gasoline Alley. Socially, the people of those communities are experiencing these things that come along with success, and to that, I say, "Gee, that's too bad."

**Mr Kwinter:** Okay, now, if I can ask my real question.

**The Vice-Chair:** Okay, we will allow this one.

**Mr Kwinter:** I would like to hear from any of the members as to just how much in-depth analysis has been done about this issue of gasoline. I have a feeling that gasoline is a problem, a highly visible problem, because everybody can identify it. As I have said before, I know that at times when I was the Minister of Consumer and Commercial Relations people would drive five miles to save a penny, because that is the way they are. But generally speaking, and I would like to get your comment, I would submit that if gas prices were equal and everything else was not equal, you would have the same problem.

If you take a look at the recommendations that came out of Kingston, on page 6, I think that is the problem: "We must learn if indeed prices are lower in the US, or on what types of goods are prices lower. Then we must learn why, get competitive and change things. We must deliver lower prices or lose our retail industry." I submit to you that other than the problem of your absolute border communities—and Gerry, I am talking about the core of Windsor—yes, it may make sense to go across the border.

The people from Oakville, Burlington and Hamilton are not going to drive across the border to save money on gas, but we have seen statistics to show that people are going from Thunder Bay. Surely it is not gasoline that is attracting them from Thunder Bay. It is 200 miles from the border, so there are no benefits other than the very short term of that one tank that you are going to get. There is no one crazy enough to drive 200 miles to save some money on gasoline, and yet it is a problem. I understand it is a problem, but I am a little disturbed that the main emphasis seems to be on gasoline, that if we can only deal with the gasoline problem we have gone a long way to solving our problem. I think the problem is a lot deeper than that, a lot broader than that.

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**Mr Jacques:** If I might respond, the concern in Thunder Bay is a little bit different than those communities where it is a very short trip. There are more one-day trips, where you go and make the major purchase of gasoline, where you save significantly, and then make the other associated retail purchases. What we are expressing, though, is still consistent with what Kingston is saying: that we have to find the prices that are different and then make some changes. What we are suggesting is that is one of those prices that makes it so different, makes us uncompetitive on that one issue alone, and then people start to assume.

One of the campaigns we are suggesting is that people have to start thinking twice about what they are doing. They do not always compare prices properly. If they look at the gasoline difference and then they assume that they have saved \$8 or \$10 a tank on their gas, they will say: "I have a net savings now. I'll just do a few more things while I am over here." Because in many cases—and the union president stated this in the media the other day—



they wave through consistently at least 60% of the cars that go through with goods. There is the net saving. That is when you start resulting in some saving. The gasoline is the trigger.

One of the communities I know along our borders has done a study. A couple of them also have found out that gasoline was the number one trigger mechanism for people going across the border; and that is why we are so adamant on this one thing. It does create a significant savings factor. Nobody is going to deny that. When you are in Windsor, when you are in Sarnia and you only have to drive 10 or 15 minutes at the most to save yourself \$10, \$12, \$15, whatever it is on a tank of gas, you may make that trip because you are going to do the rest of your shopping somewhere in the States, assuming that you think everything else is cheaper on the other side. So if we can get them not to make the initial step to cross the border, then perhaps they will investigate other opportunities locally in their retail bargains.

**Mr Sutherland:** When I look through the report, I see what Kingston says, that it is solely prices. Then I look and see what came out of the study in Niagara Falls, which says a basket of groceries—not milk, but a basket of groceries—actually was cheaper here. Then I look and see what Sault Ste Marie has done with a specialized advertising campaign that indicates that it had some success in terms of—

**Ms Logan:** Very moderate success, very limited success.

**Mr Sutherland:** Limited success at its Christmas sales. It leads me to wonder, though. Then the real question is: We are not always getting the message out to the people that in many ways it is not cheaper to go across the border for everything. In areas where we can help the situation, we need to be doing a little more in terms of advertising and promotion.

None of you is from Kingston, but it is interesting, the thing about the prices. What do you do when you look at agricultural products? Quite frankly, South Carolina, in the southern states, has a warmer climate. They do not have the energy and heating costs. How are you ever going to balance out those costs?

**Mr McCartney:** You are not. There are some real simple mathematics at work here. We have this climate problem, we know that. The old studies that were done by the former government indicated that the main commodities that were being declared—that is the operative word, “declared”—coming across the borders, were all things that had that common denominator, such as marketing boards. Whether it was the milk, the cheese, the chicken, the eggs, the beer, the cigarettes, etc, they all had a board attached to them.

I do not think we are going to solve those things. I think we understand who we are as a country. The very simplest mathematical equation that we all need to understand is they have got 300 million people, we have got 27 million people, who the heck is going to manufacture goods cheaper? Of course, they are.

**Mr Sutherland:** So what you are saying then is we really have to be willing to pay the price to be Canadians?

**Mr McCartney:** You are going to have to pay it some degree, but I do not suggest that we are ever going to get a level playing field. I mean, here we sit, and we do this every day of our lives, on the border of the largest economic jurisdiction in the world, and we think we are going to be even and competitive with them? That is not realistic, but there are ways that we can be a little better than we are. But everybody has got to play the game. We cannot be just the retailer, just the consumer, just the chambers of commerce; it needs to be you too, as well as the federal government, if we are going to give ourselves a chance. Otherwise the little holes in the sieve are getting larger and larger. What will you do—I challenge you to this question—to recoup the \$80 million from your lost revenue that you did not collect?

The argument about the gas thing is really moot, because you have not got it to start with, and we forget that. You have not got it; it is over there. Now, how can we work together to get it back, or get some of it back? But we create a level playing field in a perfect world so that we are competitive with them, nose to nose, item for item, never going to happen.

**Mr Phillips:** I appreciate the thoughtful presentation. The earlier presentation I thought had a really good line it from the marketing board people. It was talking about cross-border shopping and said: “It is the current issue. It is the most obvious manifestation of some very fundamental problems in the country.”

I guess the best analogy I can draw for us all is that we think we are into a major, major battle, and you people are kind of fighting the first of the skirmishes, kind of hand-to-hand combat almost, and you have got relatively little to fight with right now. But the battle that I think we see at the border cities is going to spread up through the rest of the country. So I appreciate you are taking some very heavy casualties, frankly, in the border cities. I think we are seeing those same casualties elsewhere, but it is more obvious there. I think you have outlined some requests for some more ammunition to fight, and some of them I think will be helpful over the short term. I suspect that the marketing board was right when they said we were dealing with some very fundamental issues.

Having said all that, I still accept that all of us have a responsibility to help, particularly our border communities that, as I say, are fighting I think the first and the most devastating battles. I think among many recommendations here, particularly the comprehensive study is one that I think will be very useful, because we are all kind of groping for the facts. That is really an observation.

My question, if I get only one question, is: There is no mention in here or in any of the briefs, I think in terms of Sunday shopping. Is that a tool—and I think many of these tools, as I say, are rather kind of short-term things to minimize the damage while we try and deal with the long-term problems—is Sunday shopping of any merit to any of our communities?

**Mr McCartney:** Yes. I think most emphatically. I will not do as we have been doing in our communities for the last two weeks, debating this subject with all the local



liticians and so forth. It is really not a debatable item. The fact is that we had it. I will tell you, and I can speak for three of us anyway from the chambers of commerce, that we have a position in the provincial chamber that says we oppose Sunday shopping. You know that, because we have met with your various committees, etc. That was in 1989. That was in 1989—

**Interjections:** This is now.

**Mr Phillips:** I have heard this one before.

**Mr McCartney:** But is it not different when you are in power?

The things that have changed I think we all understand. At that point there was no free trade. We did not have a free trade. Cross-border shopping was an everyday event that has been going on since the 1940s, but it was not this phoric cross-border shopping that we have now. Interest rates were lower, and on and on; so things were different. That was then and this is now.

And of course, experience makes you a great learner. Since you have had Sunday shopping, which we have had since June 1990, your experience changes, and suddenly those people—I say all; a great majority of those people—who now enjoyed Sunday shopping said: “Hey, you know, it’s not so bad. I objected to it in the first instance, but it’s not so bad. Actually, we made some money.”

Now, is the argument for Sunday shopping attached to cross-border? Yes. And it is not the sole reason. I mean, anyone who would suggest to you that Sunday shopping is now the major reason why people are going to go to the United States is crazy, but it is just another one of those little bullets to put in their gun, and I think it gives them the seventh bullet.

**Mr Phillips:** On Sunday shopping, just in terms of where we should be thinking, the cross-border community for Sunday shopping?

**Mr McCartney:** The question is, where should the government be thinking?

**Mr Phillips:** Yes. Well, we are not the government, it’s the Legislature.

**Mr McCartney:** I think the government should consult, remember one. I think you need to talk to the border communities, as you are doing in these kinds of experiences, etc.

**Mr Stockwell:** We will consult, I will guarantee you that.

**Mr McCartney:** That is good. We have been recommending that a lot lately, to find out what the impacts are. I know the mayors were here and the mayors met, and was 10 out of 13 of them suggested that we should have Sunday shopping? Well, that is nice. Let’s talk to the border communities. Let’s find out what they really need and whether it is going to impact them or not.

At the very least, if it is all we can get—and I do not agree with this morally because you get into your problem with where do you draw the line—border communities could have some kind of an exemption, and it need not be that stringent, because they are the ones paying the price.

You suggested we are on the front line, sort of like those Kuwaiti guys that went down from Iraq. You are

right. They did not have a lot of tools to work with, and that is what we are feeling like. You are taking another tool away from us, and it hurts. It is just going to add to the problem. So maybe we need to make a unique exception in this regard and look at border communities in this instance as an isolated situation and give them a tool to play with.

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**Ms Logan:** Just to add to that, if I might, Sault Ste Marie has had Sunday shopping for some two and a half years now, and I can assure you if that is taken away from our residents—we are already suffering tremendously as a result of cross-border shopping—it will just exacerbate the problem.

As an example, on Good Friday—and I am not suggesting that stores should be open on Good Friday—the American side was open. The lineups on the bridge were unbelievable. There was a restaurant open in one of our malls and that was the only facility that was open, and the restaurateur was standing at the window almost crying because she can see the bridge from where she is, and the steady stream of traffic going across.

**Mr Jacques:** Can I just add one more quick response? Gerry mentioned consultation with the communities. I think it takes some leadership, more than the consultative process, because we are aware of the concerns. As he mentioned, it is the last bullet. I think it is going to have to take some hard-line stand and to show the leadership that is required within this province and suggest that this is what has to happen in order for us, this province and this country, to survive. It needs some strong leadership shown, and give the benefits straight out.

**Mr McCartney:** We have a proposal, actually, and one of the things—I will leave you with this curiosity. I have never understood why this government or others before it have always looked at the retail sector as this great sacred cow. Why is it so bad, the retail sector? I mean, is it any worse to buy a shirt in the local Zellers or K-Mart store than it is to have a beer in McGuinness Landing, which is open on Sunday, or to go to the Blue Jay game or to ride a cab or to go to the theatre? All these things are open on Sunday, and yet the gun comes around to the retail sector and says: “Well, but listen, Ontario. You can do all those things, but don’t you dare buy a pair of socks or a pair of pantyhose.” Why is that unique? I never understood that and I still do not know if I am going to get a good explanation or not.

**Mr Stockwell:** I think the biggest problem facing us is going to be cross-border shopping. The waters run deep on this issue, and I do not think there is a simple answer, frankly. I do not think there is a very clear, concise piece of legislation that the government could pass and poof, our problems will go away.

I also think that to a degree you are a problem as well. People who come forward and tell us that, “Gee, it’s gas that’s the big hook,” and so on and so forth, and, “Let’s mount a campaign to tell people that it’s not cheaper to shop in the States.” I have not seen a study yet that does not tell you it is cheaper to shop in the States, whether you are buying a turkey or whether you are buying gas or



whether you are buying a ham, etc. In fact, the studies we have seen here have all indicated it is cheaper to shop in the States, case closed.

The biggest dilemma I think we are facing is, before you can solve a problem, you better deal with it, and the problem is it is cheaper.

Maybe it is more a comment than a question, but I would love to see those studies as well, and I think what we need to do is undertake a full-blown study; but what I believe your study is going to say is, "Your consumers aren't stupid." The people I have talked to are not stupid. They are not driving from Toronto to Buffalo to save a couple of cents on gas. They are driving there because prices are significantly different on major purchases.

I guess what I would like some response to, maybe at a later date and when you have done this study, is, what are the fundamental changes that we have to make to get competitive again, because we are not competitive. I think as long as we bury our head in the sand and pretend that we are competitive and tell ourselves every night before we go to bed it is gasoline or it is cigarettes or it is alcohol, we are never going to become competitive. That is the greatest fear I have, that we continue—

**Mr Fletcher:** Is this a question?

**Mr Stockwell:** No, it is not. It is not a question. It is a comment and may come to a question.

The biggest fear I have is that we are going to continue burying our heads in the sand and having people, particularly on the other side, saying, "Well, really it's not prices. We've got to just inform the public that you're going over there but there's no real savings." Baloney, there are savings; significant savings. Maybe you could comment.

**Mr Commisso:** Mr Chairman, may I answer Mr Stockwell's question?

**Mr Stockwell:** You can comment on my answer.

**The Vice-Chair:** Comments, I guess it would be, rather than answer his question.

**Mr Commisso:** I raised the issue that a study should be done, and I have been trying to raise this issue for the last two years. You have turned it around and said we should do the study.

**Mr Stockwell:** Not—

**Mr Commisso:** My proposal is that this committee recommend that a major study be undertaken by the government of Ontario to find the answers to some of your questions. We believe we know some of them, but we are not professional researchers. We all have different jobs and we cannot abandon those jobs to undertake this research. We need some real professional research to find out what the differences are and why they are and what we can do to address them. I think that is where we have to start. That is the very beginning point, and unless we do that, we can all sit around and talk for years; we are not going to solve it.

**The Vice-Chair:** I am just going to make a comment on this. Three months or six months ago when we first started talking about this, a lot of the figures have changed all the way along. In our subcommittee we discussed this, that if we

study it to death we will never solve the problems. It is ongoing thing. It is increasing, it is not decreasing.

**Mr Christopherson:** First of all, my thanks to presenters. It was excellent and very high-calibre, high quality, and I think you have added a lot to our deliberations. Again, I do thank you for coming down and making your case.

A quick observation, if I might: The gas issue keeps bouncing back and forth between members as to whether this is something that we need to address and will it be a panacea that changes everything or not. From where I am sitting and listening throughout all our deliberations, what I hear very clearly, and I think my colleague across the room Mr Stockwell has acknowledged it, there is no single action that any level of government or any sector in the economy can take that will reverse this crisis. There seem to be a number of key pieces, however, that are the large chunks that perhaps we ought to be tackling first. Gas, as I am hearing, is one of them.

I do not have the answer right off the top of my head either. We have heard different variations of different formulas, different approaches. Mr Winter was here last week and talked to us about the idea of a test marketing station right at the border; There is your idea of a zoned system. There have been suggestions that we just plain arbitrarily slash the price of gas across the province—many different things.

I think, though, that it is important that we address the issue, because it does seem to be the catalyst for a number of other purchases. Before you, as you acknowledged, had the dairy producers, the marketing board representatives, and a lot of their leakage is coming from the fact that people are already across the border. I agree with some of the comments by others. No one is going to go across the border to travel for an hour from Hamilton, to save \$1.50 on a tank of gas. Likewise, they are not going to go over there to save 50 cents on a dozen eggs or to pick up a few litres of milk. However, if they are already across the border and they know that by adding up those purchases they can save \$50 or more, then it starts to carry a little more enticement. So I think as one key component in all of this, we need as a government to be addressing that particular issue and others.

I have a question, Mr Chair, and it would be, there has been a suggestion by the mayor's task force for a trilevel government task force to look at this issue, made up of municipal, provincial and federal representatives. I would like to hear your comment. I have a sense that without the co-ordinated approach—certainly we have acknowledged that on key issues there has to be co-ordination. My sense at this stage of the game is that really, to deal with all the complexities and all of the issue, we need a comprehensive approach, and if there needs to be a great deal of studying done, large studies, they should be done in conjunction with the feds and with the municipalities playing a role because they are the front-line fighters in this case.

It seems to me that is what we ought to do. I would like your opinion as to whether you would perceive that to be a valid, necessary approach to tackling the economic problem of cross-border shopping, or would you perceive that as more government wheel-spinning?



**Mr McCartney:** We would concur that a task force of that size and nature may be beneficial, but we would add one ingredient in order to expedite the results much quicker. If you would have as one of the key components the business community somewhere—Retail Council of Canada, chambers of commerce, whatever it may be—as part of that guiding process, I think we could get at the answers a little quicker.

When it came to effecting change, whether it is taxation or otherwise on the gas issues, that could be more cumbersome and certainly more onerous. I do not know where that would lead, but I think the problem is large enough. You have identified, as almost every study has, that gas is one of the trigger mechanisms, and I concur with Mr Kwinter, they are not going to go just for that; but I guarantee you, Mr Kwinter, that when they are there anyway, absolutely they are going to buy a tank on the way back. So it does have an effect, no matter where you are from.

I guess if you look at numbers like London and Kitchener, where their accommodations sector is down 26% to the year-end of 1990, you know why? There has got to be a reason, and I will tell you, their American cash deposits are down by a like amount. So they are not getting them across.

A task force would be something I think we would encourage and would almost suggest to you in very strong terms that consultation with business would almost be mandatory at that point, because they are the ones, as the chairman has pointed out, that are right on the front line experiencing the problem every day.

**Ms Logan:** We would support the concept of a task force, but with a time frame, because we are looking at hemorrhaging in these communities and some of the businesses that you are depending on to provide tax revenue now will no longer be in existence. If we do not deal with this now, immediately, we just cannot deal with it.

**The Vice-Chair:** Mr Fletcher, better make it short, the bells are about to begin.

**Mr Fletcher:** I will be very short, Mr Chair. I was just following this scenario: Suppose both levels of governments

cut the tax on gasoline and we say that yes, you can do this. Let's follow that along from where I live—and you were talking about Kitchener-Waterloo area, I am from Guelph—the enticement is for the gasoline and once we get the people there they buy. That is going to hurt the businesses in Guelph, and people are already going across the border to do the shopping, and it may be the gas that is enticing them. Your area now, being in a border town, is going to entice the people from my area. Now my business people are going to want an incentive to keep them there. It is along the same lines of what Mr Ward was saying. If you do it, why can my area not do it?

**Mr McCartney:** Actually, we looked at Guelph as sort of an incidental casualty at that point.

**Mr Fletcher:** Thanks a lot. That is what the voters said.

**Mr McCartney:** Our target market was really Toronto at that time. We did not care whether Toronto lost out on the advantage or not.

**Mr Fletcher:** Well, we are losing people to Toronto.

**Mr McCartney:** I understand. I think if you look at the real math involved, though, the average tank these days is about 50 litres. So if the total discount was a nickel per litre, are you going to go that far for that little money? Is it going to hurt your retailers? I do not know, maybe a little, but I would go back to Mr Kwinter's point. It is probably the people who are leaving Guelph to go down to Port Huron or Windsor or Buffalo to do other shopping who would then also take advantage of the cheaper gas on either side of the bridge then. But the point I make is that at least it stays there.

It is not Sarnia that is trying to gain by this, it is not Sault Ste Marie, it is bloody Canada, and that is what we have used in our community, the subliminal message of a maple leaf with an envelope slot and a loonie coin going into it. Let's keep it at home. That is the message.

**The Vice-Chair:** We are running over 5 after 12, and I would like to thank you for appearing before this committee.

The committee recessed at 1206.

## AFTERNOON SITTING

The committee resumed at 1539.

## RETAIL COUNCIL OF CANADA

**The Chair:** If the Retail Council of Canada could come forward, please. It is Alisdair McKitchan, president; Peter Woolford, vice-president. Welcome.

**Mr McKitchan:** Thank you. I am Alisdair McKitchan and my colleague Peter Woolford is on my right. We represent the Retail Council of Canada and we value the opportunity to appear before the committee. With your permission, Mr Chairman, I will not attempt to regurgitate verbatim the content of our submission but would rather give you a summary of it so that more time is available for discussion.

I should first say that the constituency the retail council represents constitutes, within our direct membership, retailers who, across Canada, perform something in the order of 65% of total retail store volume. That excludes automobile dealers, gas and accessories and restaurant dealers, but is about 65% of the store trade. That is drawn from virtually every sector of the industry, but of course with the predominance of our members being independent. We represent something over 6,000 actual businesses and we have affiliated with us many regional and specialist associations. In particular I would single out the Canadian Council of Grocery Distributors, which is the organization speaking for a large proportion of the grocery trade. So we are here speaking both on behalf of the general merchandise and the grocery sectors.

Let me touch on what we perceive as the dimensions of the problem. We have not commissioned or seen an accurate computation of the volume of Ontario business lost to cross-border shopping. However, individual cities have run measures based on a count of cross-border same-day shopping trips and correlated that with interviews with returning residents. Matching the results of these tests to the numbers of cross-border trips makes it reasonably certain that the volume lost from Ontario must exceed \$1 billion per annum. The rate of growth of the problem can be derived directly from the Canada Customs figures of same-day trips counted on a year-by-year basis. As the table on page 4 of our submission demonstrates, and you have probably seen it before, there is a very steep increase in that figure, rising from 11.7 million visits from Ontario in 1987 to 22.4 million last year, a rate of growth somewhat ahead of the national results where the 31 million visits in 1987 had grown to 58.1 million in 1990. As you will see, figures for the Niagara Peninsula area are even more significant. The economic loss and in many cases the hardship caused by the loss of business is well known to the committee and I do not think I need to expand on it.

Let me touch, however, on our perception of the nature of the problem. We do believe there is a considerable misunderstanding of the problem's actual nature. In our view and that of our members, the cross-border shopping issue is not primarily a question of inappropriate or ineffective border controls, although, as I shall mention later, we

should get the border situation right and we are aggravated by the problem by not dealing with it promptly and decisively. But even when we fix the border issue we shall still, I believe, have a huge problem on our hands.

Some of the factors influencing Canadians to shop in the United States we can correct. Others we have to accept but to some extent we can compensate for. Obviously geography plays its part. Our cold climate, long distances and the sparseness of our population make for diseconomies. These are built-in handicaps that we have to accept and somehow work around.

Second, consumer markets are in a state of flux and change, but that is a condition which affects retailers both south and north of the border. The effects, however, tend to be more severe in a smaller market. Domestic suppliers face some of the same impediments as retailers and indeed we also have a handicap in relation to imported goods because Canadian tariffs tend to be just about double those that apply in the US to goods that are imported from overseas or from Central and South America.

Another disadvantage is the relatively heavier public sector burden—taxes and government-mandated expenses—which weigh more heavily on Ontario firms than those in the US. There have been suggestions that a couple of high-profile measures could cure our problem. One is the suggestion that most of the problems stem from the Canada-US trade agreement, and abolishing that would solve the problem. That, in our view, is a myth. In point of fact the tariff concessions granted by Canada and the US apply only to goods which are certified through a source-of-origin certificate as being, in fact, manufactured in one or the other country and so entitled to the modified rate of duty now applicable under the agreement; or duty-free in the case of the relatively few categories of merchandise that have achieved that status at this point.

Consumers, of course, cannot readily obtain source-of-origin certificates. On the other hand, there is no doubt that consumers construed the description of free trade quite literally, and assumed that it meant what it said. Of course they could not have been more wrong. In any event, the conclusion of the agreement seems to have piqued the interest of Canadians in what might be available advantageously, as they believed, in the United States.

Nor do we believe a forced devaluation of the Canadian dollar a solution. Such a devaluation would mean a substantial impoverishment of Canadians, because many of the goods they buy would become proportionately more expensive, and inflation would again be stimulated.

So let's talk of some of our notions on solutions. We believe solutions will be assisted if we have better facts and an overall better understanding of the facts which are already available. It was to achieve these ends that we, as an organization, convened a meeting last October of all the principally involved Canadian parties, including representatives of the federal, provincial and municipal governments, the community groups and individual trade representatives to review the issue and see what might be done, either



parately or jointly, and what further research was required. Out of that meeting came a decision to embark on study on competitiveness. A pilot study has been undertaken by the federal Department of Industry, Science and Technology, and the results of that study are to be presented at a second meeting of the group on 22 April in Niagara Falls.

The meeting also reviewed the various initiatives which have been taken by local communities and heard Revenue Canada's views on the situation. The department is encouraged to embark on actions which would result in collecting a higher proportion of moneys due without, it is hoped, creating situations that would deter visitors from coming to Canada. Out of this, presumably, came the C experiment, which we are watching with interest but, of course, we do not yet know whether it will work or not.

At the April meeting we shall be determining what further research would be useful and helpful. We also believe that there are some constructive things that the private sector can do on a joint basis within the sector. Merchants and local groups in some communities have attempted to fight back through a variety of measures, including public communication programs, stressing the benefits of keeping economic activity in the community, through special promotional events, co-operative advertising, improvements in service and adopting, where possible, more aggressive pricing policies.

Some of these initiatives have been undertaken with the assistance of the Ontario Ministry of Industry, Trade and Technology which has provided advice and help, especially with respect to marketing. Obviously that kind of help is welcomed but neither the initiatives nor the help are, in our view, the long-term solutions.

Another response of the private sector will be in the form of accelerating improvements and achieving even greater efficiency and competitiveness, but however heroic Canadian efforts are in this area, they will not be able to amount or compensate for the cost disadvantage that I all mention in a moment.

Let's turn now to the public sector initiatives. We believe, in fact, that it is within the public sector that more can be done than in any other to help solve the problem. The first section is relatively simple and easy of achievement. We believe that the federal and provincial governments should come to an agreement whereby federal customs inspectors collect not only federal duty and the federal goods and services tax but also the provincial sales tax. That action would be much more practicable if the provincial sales tax regime were harmonized with the federal goods and services tax. We have recommended that harmonization for other reasons, and in any event the border problem, we believe, is the most powerful argument of all for bringing about that harmonization as quickly as possible, and we commend it to your committee.

The other actions required of governments are neither easily defined nor as capable of immediate application. However, because the twin problems of significantly higher taxes and explicit or implicit costs from regulatory action are of much higher dimension than those bearing on our US competitors, we believe that the provincial govern-

ment must start reappraising virtually all existing or planned significant activities and programs affecting business, with a view to weighing their design and utility against the competitive criteria. We shall certainly be making a case for this with the Fair Tax Commission, but the mandate of that commission is not sufficiently wide, in our view, to embrace all the forms of costs to which we allude. We must also look at government programs already in force or now being contemplated in areas of marketing practices, employee protection and benefit legislation, and other policies which bear on all employers, manufacturing as well as distribution.

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We are not necessarily suggesting that any of the objectives of the particular pieces of legislation are undesirable, but we believe that the government should study whether there are not other less expensive, less burdensome ways of achieving the same or similar objectives which would not carry the penalty of reducing sales in Canada with the consequent loss of jobs, of income, of tax base and so on. Some programs, we suggest, will just not represent a good bargain in terms of their side effects on our competitiveness and thus jobs.

We know that we are proposing a formidable and challenging program for the government. We believe, however, that the project is better attacked now than two or three years hence from a position of even greater comparative disadvantage and more economic weakness. We shall look forward to a period of discussion with you.

That is our submission, which we submit with respect.

**Mr Sutherland:** Thank you for the presentation. We have heard a couple of presentations. We had John Winter in last week and he gave a very thorough analysis of the situation. We also heard this morning from the Ontario Border Communities Task Force on Cross-Border Shopping, indicating concern that Ontario border communities are now becoming the discount capitals for American retailers in terms of their scratch and dent and second-level clothing and that type of stuff.

I am just wondering, in terms of the measures that you talked about in your presentation, even if they are carried out, how are we still going to be able to counter this type of discounting and major dumping in the border communities by American retailers?

**Mr McKichan:** Obviously, as far as competitiveness is concerned, you have to be comparing like with like. We will never be able to compare a full-line type of service with a discounted minimal-service type of operation. That is as true within Canada as it is within the United States.

However, there are many customers who do not want to buy ends-of-lines and less than full-service types of merchandise, just as there are in the United States. I think one of our obligations there as merchants is to differentiate in our marketing what we are offering, and how sometimes the comparisons are made erroneously. But we are still not competitive with full-service US firms on the other side of the border. In essence, retailing has become an internationally traded commodity, and the damage which now is most apparent in the border communities is not confined there.



The proportion of Toronto residents who make shopping expeditions to the US is large and growing, and when you consider that within Canada 90% of the population lives within 100 miles of the US border, virtually the great mass of our population is within access and I think we have to take account of that in our policies.

**Mr Sutherland:** The other studies have indicated that the higher the income the more likely you are to participate in cross-border shopping. What would you say to those people who seem to be reaping the many benefits of our social programs in terms of some of the extra costs they are putting on to retailers and some of the things that you have mentioned? What would you say to those people who want to have it both ways? They want to have all the benefits yet they want to be able to have low prices when they are purchasing their goods.

**Mr McKichan:** I think we share a perplexity in relation to that situation. I think some attempts have been made through public service advertising to illustrate to consumers that when they buy a piece of Canadian merchandise they are also helping support employment in Canada and paying part of the social costs of running our system. Unfortunately, a great many people do not make a correlation between long-term and short-term benefits and they give precedence to what they perceive as their short-term economic advantage. I wish I could provide you with a magic solution to cure that attitude.

We have contemplated an advertising campaign designed to bring out that question, but it is very much a two-edged type of initiative. On the one hand, you are saying: "There are bargains there, folks. We don't think you should have anything to do with them." It tends to emphasize the fact that if they are really smart and not particularly scrupulous, they can benefit. I have some difficulty accepting that as a good strategy.

**Mr Sterling:** Thank you for coming. I really do appreciate the thoughtfulness behind your presentation, because Mr Winter had some suggestions that I found difficult to justify, such as putting artificial barriers at the border and saying, "We're going to charge you \$5 to come in," or they are going to have long lineups in order to discourage people and that kind of thing. I do not believe that in the end it answers any of the real questions.

I really do feel that an aggressive approach by the provincial government—and that is whom we are dealing with here—to collect its provincial sales tax would in some ways discourage perhaps, I do not know, maybe 10%, maybe 40%, who knows, from crossing the border.

When we had the Minister of Revenue in front of this committee a week ago, it appeared to me that she was not being very aggressive about taking this issue in hand. In fact, when I asked the question of how much had been declared through customs, she or her three officials who were with her could not answer that question, which I thought was amazing in terms of the Minister of Revenue having no idea of how much revenue she might be losing a year.

First of all, I have no trouble with sales tax harmonization. I think that makes economic good sense within our

boundaries as well. I think it will allow you as a retailer and the whole operation probably to do business cheaper, as well as make the situation easier at the border. The problem that I find with the suggestion, is that the provincial government has to say, "We want you to collect it, but we're willing to do something positive about this." Now, that can be either an offer of cash or a couple of points on the scale or it can be an offer of going to actually helping collect the money at the border.

I would like you to comment on what you see as the provincial government's responsibility in doing this. I am not popular for a politician to collect tax. I am certain Otto Jelinek does not want to be the fall guy for collecting provincial sales tax at the border. Therefore, in fairness, I think the province should have some responsibility in this and some visibility.

**Mr McKichan:** I agree with you. Mind you, I think the federal government is very keen to achieve harmonization, because it is well aware of the potential economies on the scale in the collection of the tax generally, not just the border tax but the tax overall. I guess they worked with some diligence to attempt to achieve that during the planning of the GST but were not able to get provincial support. I think, even without any encouragement they would probably be prepared to take on some collection duties, but even if they wanted to make that a shared-cost operation, it seems to me it would still be a great bargain for the province. One could conceive of the feds getting a percentage of tax collected or some such arrangement, and 97% of the tax collected is a better bargain for the province than 0%.

**Mr Sterling:** I agree.

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**Mr McKichan:** It seems to me not only would both sides win, but it would have a significant effect in maintaining more business within Ontario because there is no doubt about it, the ambition of the customer to avoid tax is a particularly cherished one. People like to save money, especially they like to save tax moneys. That is just the nature of the human soul.

**Mr Sterling:** I think Frank Miller proved that back in what was it, 1983 or 1984 when he gave a tax holiday on automobiles. It was probably the most responsive provincial government program that had ever taken place.

**Mr McKichan:** Yes. If a merchant announces a 10% discount sale all you get from the public is a big yawn but if the government says it is going to remove a 7% tax for a while the public reaction is instantaneous.

**Mr Sterling:** Yes.

**Mr McKichan:** It is a curious element of psychology.

**Mr Sterling:** Can I ask one other question? Not only for the retail business but other businesses, one of the most shocking parts that I found about these hearings in dealing with cross-border shopping—as Terence Corcoran wrote in the *Globe and Mail* the day after John Winter was here—was that the cross-border shopping issue is just a very small indication of how uncompetitive we are in just about everything we do. Are there some specific tax areas in which the retail trade would like some relief from or which



uld affect them perhaps more than other business interests, because they are the ones that are facing the onus of this threat?

**Mr McKichan:** I think when you compare the costs of a US retailer with a Canadian retailer the most significant statistic that stares out at you is the differential in the cost of occupancy. That covers rents and real estate-related costs, business taxes and of course in the Toronto area the concentration tax. It is a fairly common occurrence that the cost of occupancy, which in Ontario will tend to run a merchant 11%, 12%, 13% of overall costs, will probably be just half that across the line.

I guess the second most important element of tax is all payroll taxes, because retailing is a labour-intensive industry so anything that attaches to the cost of labour is significant. Again, the differential between Canada and the US is very significant except, I guess, in the case of the larger companies, the cost of health care which curiously tends to be higher in the United States than in Canada because of the inherent high cost of the US health care system.

**Mr Sterling:** They have the argument about us having a social conscience, but we should really discount that in terms of this phenomenon, because you are saying that cost is already included in the retail price over there in a lot of cases.

**Mr McKichan:** Yes, but their payroll-related taxes, rather than health, are substantially less than ours. All their occupancy costs are very significantly less. That is compounded with the differential on the cost of land, which, if you look through that, of course, also leads back eventually to a lot of tax reasons. There is a huge and, under the present regime, insuperable cost differential.

**Mr Mammoliti:** I am somewhat concerned about one-day trips. On page 4 you have given us some examples that go back to 1987. These are statistics that you got where?

**Mr McKichan:** Customs Canada.

**Mr Mammoliti:** Customs Canada. These statistics are compiled, I take it, by people who tell the truth at the border?

**Mr McKichan:** No, these are just people counted going across the border. You do not know whether—

**Mr Mammoliti:** And when they are stopped, they say, "Yes, I did some shopping."

**Mr McKichan:** Not necessarily. These are just the raw number of crossings. The estimates made of volume are derived partially from these raw figures, but also looking at the surveys which have been done by particular agencies and towns in border situations where they have done turning-as-resident interviews asking: "Did you shop in the United States? If so, how much did you buy?" They have compiled figures for their areas.

**Mr Mammoliti:** That is what I am getting at. These are the people who have said, "Yes, I have shopped in the States."

**Mr McKichan:** Not these figures in the tables. That is just the raw crossings.

**Mr Mammoliti:** Okay, so how accurate could they be then?

**Mr McKichan:** Very accurate; completely accurate. Customs count the number of people who pass the border.

**Mr Mammoliti:** Yes, but how do they know they are shopping?

**Mr McKichan:** They do not. We are not saying these people are shopping; we are saying this is just an indicator of the rate of growth of the phenomenon because we assume that probably about the same proportion of people who went to shop in 1987 went to shop in 1990. We do not know, but we assume, and we assume most of these people who are crossing the border are crossing the border for the purposes of shopping.

**Mr Mammoliti:** Are there any statistics on how many people are actually shopping?

**Mr Woolford:** Can I pick up on that just a little bit? Talking with the Revenue Canada officials as well, they have made clear that the basis of their judgement on these numbers is that most of these people going across for a single day are in fact going for shopping. There are a small number of people who go across for job-related matters, workers who live perhaps in Windsor and go across to Detroit to work. There are some locations in Canada, for example, where schoolchildren will cross the border daily.

What they do say, though, is that the vast increase they have seen since 1987 is primarily for shopping purposes and they get a feel of that from talking with their field staff, from looking at the number of the collections and the number of seizures and so on that they make. They report that the number of people looking to pay duty on purchases in the States is going up very rapidly as well, but they do not have as good and clear numbers and as consistent numbers as they had on this side, so we put these in.

**Mr Hansen:** When we got into the auto free trade pact, individual citizens were not allowed to participate in that; that was between companies. I believe this free trade also was mainly between companies in Canada-United States, but people interpreted it as private free trade, so that you could bring things back into Canada. As you see from the figures 1987-1990, everything just about doubled since free trade came in.

I know we are trying to fast-track this to get down to some solutions. I had brought up one suggestion. It is now law that when you come back into Ontario, it is the obligation of the returning person purchasing merchandise in the United States to voluntarily remit the 8% Ontario sales tax. If we could just get the federal government to hand out envelopes at the border people could send them in. If you do not have an envelope, when you get home, you forget to send in that 8%, whereas a form you could fill out. But maybe one step further to get things moving is that little bit of co-operation with the federal government. That slip that you make on declaration: If it is not sent in, we would have a service charge for actually billing the person to send in that particular money. I would just like to hear your opinion. Do you think something along this line would work and help the retail trade here in Ontario?



**Mr McKichan:** The point you make is well taken and it is a curious anomaly that probably 95% of the population of Ontario are not aware that they have an obligation to pay Ontario tax on merchandise that they purchase outside Ontario, including the other Canadian provinces.

It is also a surprise, I think, to many Ontario residents, when they buy something in another Canadian province and they buy it from a retail company which has national outlets or outlets in several provinces and they find several months later they get a bill from the Ontario sales tax collection department for the tax due on the amount of their purchase. That is achievable by the department because they can oblige a company operating transprovincially to supply them with records of purchases made outside Ontario by Ontario residents. The company is obliged to do that and does it.

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It is anomalous that the sales tax collection authorities should enforce that right for purchases made in Canada and not make any effort to collect tax from purchases made in the United States. Certainly anything that can be done to encourage collection would be welcome from the point of view of the retail trade. The suggestion you make, while I think it would improve the situation, would be not nearly as effective as mandatory sales tax collection along with the federal tax and duty at the border. You might get 30% of the duty through the method you suggest. With federal collection you would get the same proportion as the federal duty.

Mind you, we are not satisfied with the percentage of duty due actually collected by the feds, but they say they are conscious of that and are working at some ways of improving that ratio. Of course, we encourage them. You are probably aware of the experiment they are undertaking in British Columbia whereby people who cross regularly will get a permit and will have a basis for paying, their theory being that some people now smuggle because they are discouraged from paying the duty because of the long lineups required to make the payment. They believe if they can facilitate that process they will get a higher proportion of duty. I do not know if that is right or not, but that is what they hope to demonstrate from this experiment.

**Mr Hansen:** I think the one big problem is with the congestion at the borders. We have seen in other studies that we have lost the American tourist up here in Canada. It is a fear that I have found—I have been visiting relatives down in the States—that you come to Canada and it takes you two or three hours to get across the bridge. It discouraged their trip to visit us up in Ontario. The word is spreading, and I guess it is publicized in other papers throughout the States, about the problem we have at the borders. I think that express lanes should be opened up to American tourists coming to Canada before we open them up in other ways.

**Mr McKichan:** We are very sensitive to that and we certainly believe that whatever we do, we should not impede the US visitor coming to Canada. Nothing could be more counterproductive than discouraging visitors who are

going to come to spend US dollars here. I certainly agree with that.

**Mrs Sullivan:** I just have kind of a throwaway question to ask you in the beginning, but it is not the important one. I had not realized that the retail council had in the past taken a position opposing supply management programs which you appear to have done in this brief. It is not a major thing that I want to ask you about, but if there is a time you may want to comment on that.

**Mr McKichan:** Let me just say we are looking at effects and not methods of organization. If this is demonstrated to be a severe impediment to the maximization of the sale of the product in Canada, then probably it is the best way to organize the help to the agricultural community.

**Mrs Sullivan:** We will not debate that right now, but I did want to pursue further with you the whole question of the distribution system in Canada as it compares to the United States. My impression is that the manufacturer-wholesale-retail chain in fact brings in far higher costs in Canada than are found in the United States. The margins are higher at each step of the way. That is leading to retailers and merchants in Canada themselves turning to the United States for supply of their product rather than dealing through the distribution system in Ontario.

I certainly have spoken with people in the white goods industry, for example, who are able to buy product for resale in Canada that meets CSA and energy-efficiency standards and are buying that product through American distributors rather than in Canada and are still able to make a reasonable margin putting them into their stores here. Have you seen that trend? Is it unique to a certain sector of the retail industry and do you see it growing?

**Mr McKichan:** I guess heretofore, most sectors of Canadian manufacturing, and I will concentrate on manufacturing for the moment, have been higher-cost operations than US; not universally, but mostly. It is not surprising when you consider that mostly we have been dealing with smaller volumes, with many more different types of products per plant and usually with higher costs of operation and higher costs of labour inputs and so on. I guess one of the intentions of the Canada-US trade agreement was to attempt to redress that by allowing Canadian manufacturers to have bigger production runs and more specialized production. I guess that will be achieved, or else the companies will be wiped out because within the lifetime of the phase-in of the free trade agreement all the Canadian companies will be competing in price with the US operation. So in terms of the cost of deliveries of continentally produced goods, we are in essence looking at a transitional problem which lasts only as long as the free trade agreement phase-in period lasts. It will persist, however, for imported goods because, as we say in our submission, Canadian tariffs, on average, tend to be about twice those of US tariffs. So on imported goods the US will continue to have an advantage.

Turning to the issue of retail margins, again you find that usually the Canadian margins are slightly higher, comparing like type of distribution with like type of distribu-



n in the States, traditional department stores with traditional department stores, discount stores with discount stores. But of course, the Canadian margin tends to be based on a higher initial buying price, so in effect the dollar margin is greater. It is not surprising that it should be for all the reasons that we have mentioned, because we have much higher occupancy costs, about double those in the US, we have higher labour costs, higher fringe benefits. Many of the other services which retailers buy, like advertising and so on, tend to be proportionately higher and these are the difficult and intractable problems we have to deal with.

I conclude by saying there is one other phenomenon: there have recently been developed in the US novel types of distribution stores which we have not yet in all cases replicated in Canada. For instance, there is no one in Canada to my knowledge providing the kind of service that a company like Wal-Mart provides at the margins that Wal-Mart is able to hold them down at, and that is very largely a question of scale on the one hand and style of merchandising on another. But these store types are developing. Some of them are US owned in Canada and I would think it would not be many months or years before virtually all of them are replicated to some degree in Canada.

**Mrs Sullivan:** I would just like to follow up on your response, if I could. We have looked at and heard about some of the innovations that are being made in the retail industry to come to terms with some of these competitive factors, and we see price clubs emerging, we see integrated manufacturing-retailing operations, such as Ikea. Habitat, I understand, may be moving into this market. One of the effects, however, of those kinds of retail operations may be that the downtown retailer finds a new kind of competition that he is unable to meet on our own national turf. I wonder if the retail council has looked at that kind of an issue and the ultimate economic effect of that.

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**Mr McKichan:** Retailing is a highly dynamic type of business, and I guess most of the changes in the style of retailing have worked to the benefit of the consumer. I guess the classic example is the supermarket which, 50 or 60 years ago, delivered groceries at significant cost advantage compared to the previous system of distribution. These novel forms of retailing are achieving the same thing. You are getting companies able to deliver a wide range of general merchandise with margins of something like 24% in some of the US chains, compared with figures in the high 30s for more traditional types of distribution. And you, you get a different kind of service. The customer has to choose what they are willing to trade in respect of price, but it is good for the customer, and it gives the customer choice. I think these kinds of innovations do produce higher standards of living. When one compares the situation in a dynamic, North American distribution sector with, say, Russia, you realize the tremendous value that is delivered to the consumer through an efficient and competitive distribution system.

**Mrs Sullivan:** Why is it that a retailer in Canada buys an imported piece of merchandise from a distributor,

say Japanese electronic equipment, and an American retailer buying identical equipment, also imported—why does the Canadian retailer have to charge a significantly higher price to make any profit on the sale?

**Mr McKichan:** I guess the most obvious cost differential is that of duty which, as I say, is roughly double in Canada what it is in the United States. Apart from that, there are obviously questions of scale, of the US market being 10 times the size of the Canadian market, presumably the US importer is able to get the volume discount substantially better than the Canadian importer. There would also be economies of scale in distribution. I would assume, if the merchandise flows through a professional importer in the United States, that importer's operation is probably significantly bigger than the equivalent in Canada, and the market may be more competitive in the United States at the wholesale level. I think these are all factors in the situation.

**The Chair:** Ms Ward, then Mr Sorbara.

**Ms M. Ward:** You are a national organization. I understand this is a problem across Canada from, we have heard, St Stephen, New Brunswick, to places in British Columbia and so on. I wonder if you could comment on the degree of the problem in other parts of the country, if there is any action they have taken you can tell us about, or anything we could learn from them, and are there any different circumstances?

**Mr McKichan:** It is very significant in the lower mainland of British Columbia. The lineups at the border crossings are comparable to those at the Niagara area in Ontario. There is also the similar phenomenon of US firms establishing virtually in green pasture, with no concentrations of US population round about, and obviously designed to cater to the Canadian business.

**Ms M. Ward:** That is BC, is it?

**Mr McKichan:** Yes, and they have a particular problem there, I guess, with the daily sale of dairy products and gasoline to people who are resident in the southern part of the lower mainland, who would not think of shopping for these necessities anywhere else but across the line. Of course, it also affects general merchandise and other food products. It is not so much of a problem in Alberta, because the large concentrations of population are just that much further from the border, and there are no sizeable US cities to the immediate south. That is somewhat the situation in Saskatchewan as well, and to a lesser extent, in Manitoba. In Manitoba there is Fargo, and one or two other midsize cities.

In Quebec, it is becoming more of a problem, but Montreal is somewhat further removed from Plattsburgh than is the case in the border cities here. As you say, it is a significant problem in New Brunswick, particularly the St Stephen crossing. It is not much of a problem in Nova Scotia, Prince Edward Island or Newfoundland, because they are insulated by distance.

**Ms M. Ward:** Is any action being taken in those areas?

**Mr McKichan:** Everyone is wrestling with exactly the same questions that we are here. As you know, Sas-



katchewan has integrated its provincial tax with the federal tax. We believe that Manitoba is contemplating that, largely for the reasons of collection. Alberta, of course, does not have a sales tax so that is to their advantage in the comparative pricing of products; and, of course, Quebec has integrated their sales tax again with the notion that the feds will collect it. We are encouraging all the provinces, incidentally, to move ahead with integration.

**Ms M. Ward:** Did they not do that originally, Quebec and the others?

**Mr McKichan:** They did it before. Yes.

**Mr Sorbara:** In your brief, in describing the dimensions of the problem, you stated that the very short notice given for submissions to the legislature means that it has not been possible to do much research in this regard. Anecdotally and in a word, how serious is this problem?

**Mr McKichan:** I would say that for many of our members it is the single most important public issue or competitive issue that they are facing. It is very important for the grocery trade. It is important for anybody selling clothing or footwear. It is somewhat important for people selling small appliances. It is not so much the major appliances just because of the difficulty of moving them and of servicing them; and all the other trades, to a greater or lesser extent, whether it is jewellery or housewares or whatever. But the big areas are clothing, footwear, groceries and household linens.

**Mr Sorbara:** The council has always done good research, I believe. That has been my experience over my period in government. Politicians have a different approach to measuring the severity of the problem and my own estimation is that you are absolutely right. It is an extremely serious problem.

Let me give you my political experiences: an encounter with someone in Windsor who said to me: "I don't spend any money in Canada any more, like milk, bread, gasoline, new tires, nothing. If I am going out for milk, I cross the bridge and I get milk and cigarettes and bread and do a little shopping and maybe even my dry-cleaning. I do not spend any money in Canada."

Someone on my own staff, a couple of Christmases ago, went for a Christmas vacation to the Ramada Inn in Buffalo on a shopping excursion; \$59 a night for a family of four in marvellous accommodation and a guide to where all the best bargains were for Canadian shoppers.

A third and final anecdote is that I live in Richmond Hill and I represent the people of Richmond Hill. There is a great new shopping mall there called The Promenade. One day about two weeks ago I went there and when I came out, on my windshield was a flyer advertising, I think the lead was, "Buffalo Direct. Write to us and we will show you how to shop in Buffalo." That seems to me to mean now that the market penetration is well into the greater Toronto area.

**Mr McKichan:** Absolutely. It is well into the hinterland.

**Mr Sorbara:** I put all that before you because I am going to ask you what three or four things you think the provincial government should be doing. But what I want to

concentrate on is the question of Sunday retailing. By way, what is the council's position on Sunday retailing?

**Mr McKichan:** We are neutral, Mr Sorbara, because we have members on both sides of the fence and we find it impossible to get a consensus.

**Mr Sorbara:** As I understand it, the government in wisdom is considering a general law to close stores on Sunday but it is proposing to make an exception for border communities. Could you tell the committee where the council would suggest drawing the line for those border communities? Would it be through Hamilton or Burlington or up Yonge Street, or where would that be?

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**Mr McKichan:** I find it difficult to respond in the area simply because of our neutral position. I think most people acknowledge that there is a correlation between Sunday opening, the availability of shopping opportunities in Canada, and the damming of some outflow of business but opinion differs as to how serious or how much of a cure Sunday opening would represent. I really do not feel equipped to give you a response on that.

In terms of where you draw the line, it seems to me that the instant you draw the line, the more will be the pressure on the other side of the line to move it another five or 10 miles or whatever.

**Mr Sorbara:** Well, if, for example, you said stores in Hamilton and then southward throughout the Niagara Peninsula can open, but the stores east and north of that, through Oakville and through Halton and then Peel and Metro Toronto, could not open, would that be fair? Would that be fair for retailers?

**Mr McKichan:** I can tell you what the effects will be. If the line is drawn immediately east of Hamilton, the merchants of Oakville will be rising up in wrath. I do not have the answers. It is an intensely difficult problem.

**Mr Woolford:** Can I pick up on that for a minute? As a former federal civil servant, I was involved in the exercise of drawing lines across Canada for some of their financial support programs for companies. Great efforts were made to draw these lines through unpopulated parts of Canada and they caused excruciating pain for the government. They could draw a line through the middle of prairie farmland, and inevitably it went down the middle of a factory somewhere that they did not know about. Drawing lines through densely populated southern Ontario is going to be a difficult job.

**Mr Sorbara:** Is the appropriate conclusion then that the marketplace, the market forces, ought to be used to determine who ought to be able to stay open on Sunday and who not if the issue is cross-border shopping?

**Mr McKichan:** Unfortunately, I regret that we are hobbled in our inability—

**Mr Sorbara:** Well, you should not be hobbled any longer. You need to take a position on this. It is time for courage.

**Mr McKichan:** Our general philosophy is that we do not need unanimity to take a position, but we do require



sonable consensus, and in this area we just do not have reasonable consensus.

**Mr Sorbara:** No, but there is no doubt that the flow shoppers across the border on Sunday is particularly significant, is it not?

**Mr McKichan:** Absolutely.

**Mr Sorbara:** Well, okay. The provincial government controls the regulation of retailing and shopping on Sunday. It controls a variety of taxes, it controls workplace issues, it controls highways. I guess it could close the highways to the US on Sunday; that would be interesting. Somebody has suggested while they go about Sunday closings they might also prohibit Sunday crossings, which would be typical. What three or four things would you suggest that the provincial government do quickly in order to at least stop the haemorrhaging?

**Mr McKichan:** Number one, harmonize the provincial sales tax with the goods and services tax and have them collect it at the border. That, in our mind, would be the most significant thing they could do.

Second, work with the federal government in encouraging the highest possible level of collection of duty and taxes at the border.

Number three, embark on an instant study of the major additional tax components which Ontario businesses have to bear vis-à-vis their US competition and see if there are ways of minimizing these or other ways of accomplishing the objective which the obligation on the business requires.

**Mr Sorbara:** Just to interrupt, that would be a study of competitiveness as between the two jurisdictions?

**Mr McKichan:** Precisely, right.

**Mr Sorbara:** Just one final point, if I might. There are no differentials in the price of gasoline as well.

**Mr McKichan:** Yes, very substantial.

**Mr Sorbara:** Is that, in your view, a significant factor?

**Mr McKichan:** Very substantial. Things like gasoline, cigarettes and milk are the very basic commodities which give people an initial excuse for going, and once they are there, of course, they buy other things, but the differential—and there are very significant differentials in the price of these commodities—are a spur to people in the border communities. To the extent that you can do something about that, that is going to be helpful.

**Mr Sorbara:** Just a final comment, not a question, is that I really do encourage at least the Ontario section of the rail council to come up with a policy on Sunday shopping. If you do not, the risk you run is that we will get very bad public policy in this area.

**Mr McKichan:** We have offered our services as a technical resource, if you like, but without offering an opinion on policy.

**The Chair:** Thank you for your presentation this afternoon.

**Mr McKichan:** Thank you, Mr Chairman.

## CANADIAN FEDERATION OF INDEPENDENT BUSINESS

**The Chair:** Our next presentation is from the Canadian Federation of Independent Business, Linda Ganong, director, provincial affairs; Catherine Swift, vice-president, research; and Pierre Clérout, senior economist.

**The Acting Chair:** It is not a coup. I would ask the representatives from the Canadian Federation of Independent Business to introduce yourselves individually and then commence with your presentation.

**Ms Ganong:** Thank you, Acting Chairman. We had asked for some audio-visual support for an overhead projector. I notice there is one here. I do not know if it is plugged in and ready to go.

In the meantime, I am Linda Ganong. I am the director of provincial affairs for the Canadian Federation of Independent Business, the Ontario branch. This is our vice-president, research, and chief economist, Catherine Swift; and setting up the AV equipment is our senior economist, Pierre Clérout. Thank you very much for inviting us here today. I will turn it over to Catherine.

**Mr Sorbara:** So that is what senior economists look like.

**Ms Swift:** We are very versatile at the CFIB. We do everything, of necessity.

**Mr Sorbara:** It is always good to see you again.

**Ms Ganong:** It is good to see you too.

**Ms Swift:** We would like to present some of the research work we have been doing on cross-border shopping. It has been going on for, I would say, almost a year now. This is not a particularly new issue, as you probably know. In fact it is probably decades old, but of course what has brought everyone's attention to it over the last 18 months to two years is the incredible growth rate we have seen and the incredible loss to our economy that has resulted from the expansion in cross-border shopping by Canadians.

Most of the work we have done has focused on tax-related issues. There are a number of ways you can go at this one, and that has been our focus so far. Mind you, we are continuing work on it, so it will not be our exclusive focus. That is not to say, of course, that there are not many, many factors underlying the problems in the growth in cross-border shopping. Indeed, we believe it is very much a composite of factors, such as our high dollar, high interest rates, high taxes we have seen at all levels of government, higher wage rates in Canada, lower productivity levels; basically, overall higher costs of doing business in Canada. One thing I have heard recently from a number of members of ours is that such things as higher tariff rates in Canada for offshore manufactured goods get built into a price factor in Canada that is not found in the US. So obviously there is a wide range of factors underlying this. Naturally, the recent imposition of the GST has done nothing but exacerbate a problem that was already very serious.

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As a result of the complexity of the issue there are no simple solutions. A lot of people have talked about devaluing the dollar. That is what Third World countries do basically, and although I agree that there is a need for a more logical



level of the dollar than we have now, people who are looking to that as a solution are just postponing a true solution to this issue; and indeed the longer you postpone it, as we know, the worse it gets and the more draconian the solution has to be. So although I have a bit of sympathy with that as a part of the answer to this problem, I do not think we can look for any quick fixes on this front.

We put together a study pertaining to Ontario last October, and Pierre Cl  roux is going to go through the highlights. He is also going to add some other information that has come out of another study and some more recent data that we have.

**Mr Cl  roux:** The first thing I would like to talk about is the extent of the problem. This graph shows the people crossing the border at the six most important border points in southern Ontario. That is including Niagara Falls, Windsor—the six most important ones.

Revenue Canada registers people crossing the border in three different ways. The first way is verbal declaration: As you cross the border you say, "I bought less than \$100 worth of goods and I have been there for at least 48 hours." If you declare yourself like that you will be in the first category. Between 1987 and 1990 the increase of the number of people who make this kind of declaration was 285%, so in three years it almost tripled. The second category is the written declaration. It is for people who declare less than \$300 worth of goods for a trip of at least seven days. Again, the increase is very significant. The last one, what they call the B-15 form, is actually people crossing the border and paying the duty on the products they bought in the US.

The first conclusion from this graph is, of course, that the cross-border problem is very important. When you see a 300% increase up to a 500% increase, that is significant. The second conclusion is, more and more people are ready to pay the duty on the product they buy in the US. They consider that, even by paying the duty, it is still worth it to cross the border, pay the duty and come back home. So the most important increase is actually in people paying the duty.

The second issue I would like to talk about is a report of a study by Ernst and Young. The study was done for the city of Sault Ste Marie. We know the cross-border shopping problem is very extensive there.

They asked people what they like about shopping in the US. As you can see from the graph, the most important one was the price. People are crossing the border because it is cheaper. They like the selection, they like the service in the store, they like friendly people, but the most important and distinct one is really the price. At the same time, people see some advantage to shopping in Canada. They find the quality of the merchandise better, it is cleaner here, it is safer here, but still they are crossing the border and the bottom line is the price. So it is really an argument against people who believe that better marketing strategy will really help our retailers in Ontario, because even if you have better marketing strategy, people are still looking at the price, and if the Sony Walkman is \$50 cheaper in the US, they will just cross the border and go to the US.

To better understand why the prices are so different between the two countries—there are different factors, but

we believe that taxation is one of the most important ones—we built a model which includes 12 different retailers in Ontario and the tax burden they bear compared to same retailers in Buffalo. Those data are based on what we call an average firm designed by Statistics Canada and calculated for each of those firms the total tax they have to pay every year, which includes payroll tax, municipal sales tax and income tax.

You can see that the people located in Toronto have a higher tax burden than those in Buffalo. Actually, the difference is pretty wide. If we take the example of a small store, if you are located in Buffalo you will bear half the tax burden you will support in Toronto. For the large firms the difference is smaller.

**Mr Sterling:** Can I just ask how old that slide is? How old is that information?

**Mr Cl  roux:** This was completed in October 1990. It is about six months old.

In this graph we distribute the total tax burden in different components. We can see that the killer here is really the municipal tax. If you are located in Toronto, you have to pay four or five times the municipal tax that you would pay in Buffalo. We understand that the cost of land in Toronto is greater than in Buffalo because of the specific situation in Toronto, but still, if you are a retailer in the Eaton Centre, you have to compete with the retailer in the Galleria in Buffalo to attract customers. So for the small firm the difference is very important, and there is one reason why the difference is larger for small firms than large firms.

There are two very bad taxes for small businesses, municipal tax and the payroll tax, two taxes which are independent of profit but are based on your intensity of labour and the intensity of the space you rent or you have. I think this graph is pretty clear. The income tax is pretty comparable if we look at the income tax of the two countries. The sales tax is a little lower in Buffalo, although the payroll tax is a little bit higher in Buffalo, but really the municipal tax made the difference.

We also compared another region of Ontario, Thunder Bay with Duluth. We were wondering why people in Thunder Bay are ready to drive four hours to shop in Minnesota, so we did this tax comparison, and although there are differences between the US and Canadian firms are not as important as Toronto and Buffalo, they are still pretty significant in some sectors. In only one of the 12 sectors is our tax burden competitive with the US.

Finally, if we combine the 12 sectors, we see that especially for small firms, if you are located in Thunder Bay or in Ontario, you will bear a higher tax burden than in Minnesota, and again, if the sales tax is a little bit lower in the US, but the income taxes are pretty comparable, the payroll tax is pretty much the same, the municipal taxes are definitely higher than in the US.

The last point I would like to make here is, you really have to see the impact of the fiscal structure of Ontario on small firms, because here almost 55% of the total tax burden is the payroll tax and the municipal tax for a small firm, which are really independent of profit. It is only about



% for the large firms, so we see this tax structure really hurts large firms compared to the small firms.

**Ms Swift:** Thank you very much, Pierre.

I would like to sum up and leave a lot of time for questions. There is further detail to this research that we would be happy to answer to.

I am sure a lot of the testimony you have been hearing indicates that the damage to our provincial economy that is being sustained because of this cross-border flow of dollars is of significant magnitude. It has the potential and indeed it is in the process of doing long-term damage to the economy.

Cross-border shopping is really only a symptom of a larger problem of uncompetitiveness that we are facing fairly widely in this province right now. I think as lobbyists we are hearing an awful lot from our retailer members, and it is even getting beyond the retail sector. Of course, that is at the front line and this will trickle back into wholesale, manufacturing, service, communities, where the base for the community collapses and on and on.

I think we have heard a lot of rhetoric from politicians. There has been a lot of taking of potshots at free trade, monetary policy, whatever basically is not their particular responsibility, pointing the finger at another level of government, "It's their problem." Well, naturally, it is all of one problem, and this type of rhetoric is not particularly helpful. It is also inaccurate, because on the basis of our research and others it is policies that are being pursued by all levels of government that are causing the problems for businesses. As a result, the solutions require co-operation among levels of government as well as a little more responsibility-taking by each level as to what it can do in its own bailiwick.

I have divided up our recommendations, if you will, into action into long term and short term. Some of them I expect you may have heard before.

The short-term possibilities, which naturally to some extent are things we can see some result from in a reasonably short period of time—the first thing in Ontario right now is not to increase the cost of business. The problem we have is a cumulative effect of taxes, interventionist government policies, payroll measures, legislation which imposes costs on business, higher wage costs, etc right down the line. The best thing to do in the short term is not to make it any worse than it already is. It is terrible right now, and I think this is showing very clearly that this is an awful situation.

I think too that a lot of seemingly well-meaning policies by governments are believed to be aimed at the large corporate community. Inevitably what we find is that the whole business community ends up paying for them. It could not be believed there is this wealth of ability to go over the corporate community or the business community. The differential effects between large and small are significant. Of course, the interesting thing about small firms is that they do not have the options that large firms do. As we know, large firms have a tendency to move out of the province, move their profits elsewhere or whatever. Small

firms do not have that option. They more frequently just go out of business and I do not think any of that is particularly desirable for anyone.

As I heard Alisdair McKichan mention in the previous presentation, we sure do not like the GST. You probably know we fought it pretty vociferously as an organization. On the other hand, we have it now and it is causing all kinds of grief. So we would say that although we prefer not to have it at all, we feel that since we are stuck with this thing, at least for the next little while, harmonization of the GST with the PST has to be a main priority of all governments across Canada.

It is interesting to note that in Quebec, where they have sort of harmonized it, and in Saskatchewan, where they have also harmonized their provincial tax, there are discussions under way right now on the collecting of the harmonized tax at the border. Again, this is really putting a Band-Aid on the haemorrhage, but to try to discuss short-term solutions, I think we do have to look at the odd Band-Aid.

I think there is another thing that Ontario can do. In Ontario, we have over 40% of the national economy. To pretend that Ontario does not have an impact on monetary fiscal policy at the federal level is just folly. Of course it does. As a result, keeping our finances under control in Ontario, and as a result not pushing inflation or not pushing interest rates federally—I do not like what John Crow is doing, I do not think anybody does, but we do not have to make it any worse than it already is. Naturally Ontario, with such a large chunk of the national economy, is a major player. That is another positive thing to consider in the next little while.

I think in the long term there is no question that we need to look at a major review of all our tax policies in this country at all levels. I know Ontario is undertaking a partial look along those lines. We are sorry they are not looking at the whole range of taxes. We feel if you are going to undertake that major an undertaking then we should be looking across the board.

Certainly, when we talk about competitiveness and business competitiveness we are looking at governments having to be competitive as well. The government sector is not a particularly productive sector of the economy. We do not export government services. As a result, when we are looking at productivity as a nation and competitiveness, and basically our own standard of living down the road is what this all translates into, government competitiveness has to be looked at. Our current constitutional discussions may well result in a downsizing of government, maybe not quite in the way we all would have chosen, but less of our productive capital going to finance government is a desirable outcome in all jurisdictions.

I think too, as Pierre's data clearly showed, the pushing of costs off to the local level might seem expedient in the short term. The impact of it tends to hit the small business community disproportionately. We saw that pretty clearly with the market value reassessment activity in the Toronto area last year. The people hit most quickly and in such a large measure were the small firms; we find that regularly with these local tax issues.



In summary, the cross-border problem is really just proof positive of the kinds of conflicts that arise when policymakers try to pretend they can ignore market forces. Canadians are voting with their feet right now. We view what they are doing really as a form of tax protest. They cannot take it any more. The system is stretched to the limit and obviously it is a vicious cycle because the more money that leaves the country, the less we can afford those programs we would like to retain in Canada—better social networks and so on and so forth.

So if all governments would stop pointing the finger and blaming the other guy, whether it be the other level of government or whatever, and start to look co-operatively for some solutions, both within our own jurisdiction and with other levels of government, business, labour etc, I think we could start to address some of these problems we have discussed today.

I would be happy to take any questions or discussion you have at this time.

**Ms M. Ward:** I have a simple question, or I think it is. I would just like to ask you to explain that table, either table 1 or table 2. I saw this in another presentation and I do not understand the varying percentages. If you look at table 1, Toronto is shown as 100%. But why is there the variation between the other businesses in Buffalo? Variety stores show 55%, drugstores 70%. What is the basis of that? I did not understand that chart.

**Mr Cl  roux:** It is based on a statistical firm, an average firm that we took from Statistics Canada. For example, if in one sector there are more people because it is more intensive, like a shoe store—they have more people selling shoes than in a clothing store, for example—the payroll tax will affect them more. That is why in each sector you could have a different impact from the different taxes. If their profit in that sector is higher, the income tax will be more important for them than for another sector, so it is really because they represent a typical firm. You have a typical firm of 12 sectors. That is why it is different.

**Ms Swift:** Also, 100 was the index.

**Ms Ganong:** Comparable to the Canadian, then.

**Mr Cl  roux:** Yes.

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**Ms Swift:** I was just going to say that it is random. You can choose Buffalo as the index too. It is just an index measure, so you are really saying it is sort of in percentage terms. You would of course find differences if you compared the Toronto shoe store to the Toronto hardware store, but just for simplicity's sake we set that at 100 to regularize it, that was all.

**Ms M. Ward:** Okay, that answers my question.

**Mr Sorbara:** Just as a preliminary matter, I was interested in your comment about government services not being something that we export. Some of us are willing to trade the member for Guelph for your 25th draft choice, if you could just let us know what it is. We could make a deal perhaps after—

**Ms Swift:** Probably get an antidumping ruling or something on that.

**Mr Sorbara:** Ruth Grier will tell you where to do it too—my riding.

**The Chair:** That is a sore point here. Let's just forget the dumps.

**Mr Sorbara:** One other collateral matter: You mentioned your top priority was for governments to stop loading things on to the sector that you represent, because even if you just did that, it would be viewed as some relief. On that point, the government today announced a program to guarantee all wages where businesses go into bankruptcy or are in receivership or are abandoned. I am wondering if the Canadian Federation of Independent Business was broadly consulted on the preparation of that proposal.

**Ms Ganong:** Yes, we were. This government has been consulting us to death. I have never sat in so many consultations as I have this past winter with this government. Yes, we were consulted.

**Mr Sorbara:** Are you happy with the product?

**Ms Ganong:** As we said in the consultations, we really felt where the solution should have been addressed was at the federal government level. When you are talking about bankruptcy issues, the federal government has been dragging a large portion of its anatomy for the last 20 years in this area. If the federal government had gone with it, the provincial government would not have needed to move.

**Mr Sorbara:** One of the reasons why this committee is holding these hearings is, believe it or not, as a result of the court decision which recently upheld the provincial government's bill to regulate Sunday shopping. I do not want to go through the convoluted method by which it goes from a court decision to a committee hearing on a certain topic, but all I can say is, welcome to politics.

Does the Canadian Federation of Independent Business have a position on Sunday retailing?

**Ms Swift:** There is no question the things are interrelated. They do not have to be and the cross-border issue is by far the larger issue, if we want to measure it from an economic perspective. However, it is being looked at in a high time. If it happened to Sunday shopping, so be it.

We are as split as the retail council, typically. We have a lot of membership similar to the retail council. Also, just for your information, we are doing some updating of our own research work and our own data. As you know, we poll our members to death on everything under the sun and we are doing an update because we wonder if the Sunday shopping situation has thrown a new wrinkle. We are just in the process of doing it, so we do not have hard numbers but we will, probably, in two to three weeks.

I think we are going to see a softening of opposition to Sunday shopping, but it is like the lesser of two evils. That is really the only way to look at it. The large proportion of small retailers are not in favour; they are often family businesses. I am sure you have heard all those arguments. They are not in favour of open Sunday shopping. They tend to find it increases their costs and their revenues do not change. They maybe just grasp on to a bit of market share that they would lose otherwise, so there is really no incremental advantage to that.



However, right now we have the case where if your market share is moving across the border, it is a different ball game. Again, I should have some better information on this about three weeks down the road. We think it might be softening in terms of opposition, not because they like Sunday shopping but because they feel that loss of business to them, and ultimately perhaps the loss of their own business as a result, is a worse outcome.

**Mr Sorbara:** Without having polled your members on this subject, and I appreciate how important polling is to the CFIB, the government, in its wisdom or lack thereof, is considering the designing of sort of fictitious borders to identify border communities and grant them an exemption to a law which would otherwise close all stores on Sunday.

My first question is, how do you think your members would feel about that? And notwithstanding how they might feel about that, where would you recommend the border be drawn to identify border communities that would be exempt from a Sunday closing law and communities that would not be exempt?

**Ms Swift:** There is that type of policy. It has absolutely no foundation in economics or any kind of justification in our view. We have not specifically gone to our members on it because we have not had reason to, but all that kind of thing does is move the border. It just shifts the border from a Canada-US border to a Hamilton-Toronto, I do not know, whatever you want to talk about.

I would suspect—and I never like to second-guess our members, they do surprise us from time to time so we have to be careful, of course—that measure is just a non-starter and the maldistributive effects it will have even within the Canadian retailing community are enough reason not to contemplate it.

**Mr Sorbara:** Is there any other way your members would distinguish between those businesses which could open with the permission of the state and those businesses which the state could keep closed on Sunday?

**Ms Swift:** Given that those types of regulations which discriminate in one way or another are ones that our membership tends to oppose on principle in every other area, I really cannot see the principle behind it being a workable one for our constituency.

**Mr Sterling:** Thank you very much for coming here. I guess I have difficulty with all of our reluctance, including business, to criticize government spending regardless of what good or social benefit it might have to one group or another at this time in our recession. I have seen this government make two steps in the last week which have spent over \$200 million of additional taxpayers' money. One was the unilateral decision by the Ministry of Education to move into integrated education without any consultation with the teaching profession, by withdrawing from a lawsuit in the Ottawa area. This means that in the future, handicapped students are going to have the opportunity to go to their local schools and incur all of the costs associated with providing that social service, a very difficult thing to argue against as a politician and as a caring human being.

Notwithstanding that, it is going to cost a significant amount of money. I do not think anybody believes the

provincial government is going to pick up all of that tab for that kind of expenditure, and you can continue to expect to see your municipal taxes go higher as a result of it.

The second one was the announcement today about the wage protection fund, which is \$175 million.

**Mr Sorbara:** Much more than that.

**Mr Sterling:** That is what their figure is. Notwithstanding my concern about the protection of wage earners, etc, we have not seen the details of it so it is very early to try to judge it. It concerns me that we continue to create social expectations at a time when we are seeing in this committee that we are not competitive with the social expectations we have already provided. I would like to hear them say, "We're going to cut \$175 million from some other social program." Then it would be acceptable to me.

Interjection.

**Mr Sterling:** No, that is your job. You are spending the money, you have to cut the money. I am referring to the government. If it wants to spend more money, then I think it has the obligation to do the other end of it.

I found table 2 on the Thunder Bay-Duluth tax comparison interesting because the differences were not nearly as great, of course, as the Buffalo-Toronto. We have had in front of our committee, and I had met with, the Northwestern Ontario Associated Chambers of Commerce, I think, two weeks ago. They were talking very much about the cross-border shopping between Duluth and Thunder Bay. The border is 65 miles, but Duluth is 200 miles away, so in effect the border is 200 miles away in that whole area. When I look at the comparison in table 2, the tax comparisons do not seem that great, yet they seem to have a significant problem there. What are the other causes that are making people go? Why is the price cheaper in Duluth than it is in Thunder Bay?

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**Ms Swift:** The other thing I should mention, by the way, is that what we are looking at is the tax cost to the firm—what gets built into their prices, in other words. So it would not include sales taxes, it would not include GST or PST, just as part of an answer to that question.

The other factors, naturally, are the ones that we did touch on very briefly earlier. There is no doubt that the relatively high value of our dollar and high value of interest rates in Canada versus the US are two biggies in terms of affecting all businesses, both their cost of doing business and the inducement for consumers to go across the border. They are not unique to Thunder Bay there. They are everywhere, naturally. The tax part is the part that we wanted to point out as one actionable area by all levels of government. I think we have less control, really, in our current environment, over interest rates and our exchange rate.

**Mr Sterling:** There was a suggestion made to me by some members of the Northwestern Chamber of Commerce in private discussion that the retailers in Thunder Bay were really just not competitive enough, were not sharp enough in their business practices.

**Ms Swift:** We have heard a lot of this, and frankly, I do not see too many people who say that, running businesses.



Our members really do not have a whole lot of sympathy for that kind of remark.

**Mr Sterling:** I do not imagine they would.

**Ms Swift:** Because a lot of them are scrabbling, have cut things to the bone, and they are finding a lot of the problem is what is imposed on them by various levels of government. They find they have got two hands tied behind their backs.

I am sure you could always find a firm that is not an effective marketer in Canada; and you could find very, very good retailers who are very competitive and sharp, etc, in Canada and the US. So I find that a real copout, frankly, because although there is a little fiddling around the edges—we can do with things like marketing sharpness, whatever you want to call it, as the data that Pierre presented showed pretty clearly, when your price is so significantly different; and I have seen some of the other testimony you have heard from John Winter and other people, where you have got massive differences, the wholesale price in Canada is incredibly higher than the retail price in the US—that really does not hold a lot of water in the big picture. That may be 1% of the problem.

**Mr Cléroux:** Taxation does not only affect retailers, it affects all levels of industrial sectors. We did another study which compared the tax burden of Ontario, Quebec, Alberta and BC, and you can see that manufacturers in Ontario support the highest tax burden in Canada. So if you manufacture something here you pay more tax, and you sell it to the wholesaler, who pays more tax, who sells it to the retailer, who pays more tax. At the end, it makes a big difference in the price.

**Mr Sterling:** Yes, so the retailer is going to get hit almost three times. You have focused on tax comparisons in your presentation. How much of the cost of business does that represent? Have you got any estimate of that? Even with the layering?

**Mr Cléroux:** No, it is difficult to know. It varies across different sectors, and we do not have any data on that. I look around and it is really difficult to assess, but it could be significant, especially for the small guy.

**Mr Sterling:** It really makes a difference—

**Ms Swift:** I would say between a third and a half again, depending, because there are all kinds of sensitivities to payroll taxes and so on. I am sure those data are available. It is just that we have not crunched them lately.

**Mr Sterling:** Pierre, I would like to see that other study if you would give me a copy of the one comparing the taxation rate across Quebec, BC and Ontario. Thank you.

**Mr Sutherland:** Your comment about how people are protesting with their feet against high taxes was interesting. I was wondering, if you told all these people who are shopping across the border, "Look, okay, we can cut down on the taxes, but then you have to pay for the health care yourself, you have to pay for the other benefits, the environmental standards, the occupational health and safety standards." And in terms of that, "Oh, by the way, if you decide to continue shopping, you can forget about your local businesses supporting your son's and daughter's

hockey team and baseball team and you can forget about raising the money in the community for the community complex or the hospital campaign"—

**Mr Sorbara:** You are talking about giving them a lecture.

**Mr Sutherland:** No, the fact is that I do not believe a lot of people are realizing the impact...

**Mr Sorbara:** You should legislate a little lecture before everyone crosses the border.

**Mr Sutherland:** I will let you comment.

**Ms Swift:** Out of curiosity, I have done a fair bit of media on this issue and have been on some national shows. And I have never got so many letters from angry people asking me what right I have to say to them—mind you, it has been a little exaggerated by them perhaps, but people are very defensive about this issue. So I think a lot of people, more than you might think, make that connection. They know in the final analysis it is hurting their economy. You would really have to be a fool not to—to think that you can spend millions and billions of dollars. So I think that connection is being made. It is being made more and more and more of course as this problem gets more public profile.

But in the final analysis, if you are out of a job, if you are trying to get by on a low income—I was just listening to somebody who was unemployed in Vancouver and they were saying, "Boy, I am so glad I live close to the border because I can really save money." And you know that is the circularity of this problem.

You can do all the moral suasion you want, which is really what you are talking about. And most people might not want to admit it, but I think deep down they make those connections. But that short term advantage of pay less and what not overcomes that. That has not happened to them yet. Right now they are enjoying low prices for free health care, so in their current reality that is not a factor and it is not changing their behaviour. Quite the contrary. As this gets more publicity, more of it seems to happen. So I do not know. I wish it were that easy, but I do not think it is.

**Mr Sutherland:** You talked about the issue of competitiveness. I guess your view would be then, based on the information you provided here, that in retailing—necessarily manufacturing but in retailing—price is the key difference?

**Ms Swift:** Sorry, in terms of price of the final product or—

**Mr Sutherland:** Yes, in terms of price as the key factor—

**Ms Swift:** Certainly these slides seem to have indicated that it is the compelling factor in the cross-border shopping issue. That implies the price differential is so great that it overcomes any other benefits people may seek. You may buy something at a 50% reduction in price if the quality is a little bit less, say 10%, if your service is 10% less and so on, but you would not buy something that was only 10% less in price. I think what that indicates is



price is the only factor but that the price differences in instance are so enormous they overcome the fact.

We saw that in Canada they feel they get better quality. They get better safety and better cleanliness and all these things. It is not enough though. Obviously price is different enough to drive them across the border. So maybe if the price differential was 10% we would not have a problem. But given that in some cases it is 100 to 200%, we have got a major problem.

**Mr Sutherland:** It is interesting to note in this survey about how people feel they are friendlier in the United States. That goes against the general thought that Canadians are friendlier than Americans.

**Ms Swift:** I do not think that is a general thought, is it? A lot of polls have shown that they think Canadians are nice.

**Mr Sutherland:** Okay. One other question, in the area of taxes and particularly municipal taxes—I am not familiar with how much education taxes the businesses in the United States are paying. Is there any comparison and do you have any of that information?

**Mr Clérout:** On the graph we show that we see the difference. I think what you want to know is, how much there is at the municipal level here compared to—

**Mr Sutherland:** Yes, for businesses paying education in comparison to businesses here.

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**Mr Clérout:** It is very difficult because it really depends on the city. In Ontario and generally in Canada the province will structure the tax that the city can charge, but in the US it is more free. At the city level you can have a sales tax, school tax, garbage tax, property tax. But generally what we saw from this study is that the level of property tax is a lot lower because the contribution they have from the central government is more important.

What we see in Ontario and also in Quebec and British Columbia and other parts of the country is that the federal government cuts its transfers to the provincial government and the provincial government cuts its transfers to the municipal government. What I would like to say is that it increases the tax by the back door. That is really what they are doing and why we are seeing more and more difference between the municipal tax here and in the US.

**Mr Fletcher:** Just a few comments and a few questions. As far as cross-border shopping is concerned, this is not new. It did not just start yesterday. It has been going on for quite a while. In fact, I remember when I was younger, which is not that long ago, a lot of people I knew were skipping over to the United States, just across the border, to grab—usually it was beer, but other things. That was 18 or 19 years ago.

**Ms Swift:** It is just the volume.

**Mr Fletcher:** It has started to overflow now.

**Ms Swift:** And frankly vice versa.

**Mr Fletcher:** When did it really start picking up? About what year?

**Ms Swift:** Two and one half years ago, roughly. If you want to track in a time-trend type of thing, it really did move a lot with the exchange-rate changes, because we had an 82-cent dollar, for example. I think that is the interesting point. You know that the exchange rate and interest rates and those kinds of things fluctuate; they are very cyclical. They will come back down again and this problem will to some extent abate. But I think the important thing to think of from a policy perspective is the underlying structural burden that we are putting on our economy, on businesses—on consumers, for that matter. They are getting hit pretty hard with taxes at all levels too and have less to spend. So all of this is cumulative.

You have these fluctuations of exchange rates happening while your overall trend is a sort of creeping growth in the cost burden to your economy. As a result, over time, you get more and more vulnerable. Now we have a relatively high exchange rate, we are a lot more vulnerable than we were back in the mid-1970s when we had an exchange rate over \$1. We did not see the same haemorrhage then as we are seeing now, because we are just that much more vulnerable. We are also right in the middle of a recession. So we have absolutely everything working against us at the same time right now.

**Mr Fletcher:** About two or three years ago, the actions that were being taken by the provincial government, in combination with what was going on, have now come to a point where there is a—

**Ms Swift:** That is true. All levels of government over the 1980s—it was not that the 1980s were unique in this respect; I think we just saw more of it in the 1980s. We had a period of economic growth as a province and even as a country through most of the 1980s, since about 1983. What we saw was that governments, instead of using that period to get our fiscal house in order, to pay down debts and so on, used it to expand government, to increase expenditures, to make forays into areas of the economy they did not make forays into before. Then the economy turned down and we still have a fixed cost burden attached to all those programs as well as high taxes to pay off those debts that did not get taken care of in the good times and so on.

So there is no question, we are paying now in spades for policies that have been pursued by governments at all levels through the past decade and, for that matter, the past 30 years.

**Mr Fletcher:** So if we did nothing—and some people say that is what we are doing—if we did not do anything when it came to raising taxes or anything else, that would not alleviate the problem? That would not fix anything?

**Ms Swift:** It would not alleviate the problem. We need some serious tax reform. I would certainly rather do it in an environment before our economy has collapsed. You see the federal government's most recent budget, and you wish they had scope to give some fiscal stimulus to the economy. They do not have it because they are just up to their eyeballs in debt. And provincial governments are not exactly exempt from that either. So you see how hamstrung we become. You are forced to take solutions at the



times you do not want to take them, and in more extreme ways than you would like to take them.

So I am saying the do-nothing approach is a short-term minimum. Do not make it worse. It is already severely bad. Of course, making it better is the ideal solution, but we are not neophytes in this ball game. We do not think we are going to see tax decreases in the next six to eight months. By tax, I do not just mean income tax or sales tax. I mean payroll taxes, things that cost business money, and that can be any kind of interventionist policies right across the board. So no, doing nothing is not enough, but it is better than doing something negative.

**Mr Fletcher:** As far as cross-border shopping is concerned, if I were to go across the border to buy groceries, the store I am buying them from in Detroit—I cannot remember the name; I know they are affiliates or subsidiaries of companies here in Canada. The money is going to the company. The company is not suffering. I am still spending my money with the company that owns the store.

**Ms Swift:** Is it a Canadian-owned company?

**Mr Fletcher:** No, it is part of the US conglomerate that owns most of our stores anyway.

**Ms Swift:** Not in our constituency.

**Mr Fletcher:** I know what you mean, but when I am saying "groceries," I know that Zehr's has branches in the United States.

**Ms Swift:** A Canadian sub or whatever.

**Mr Fletcher:** Right. And so if I am doing that—and I was talking to a person who is setting up shop in the United States and he said that his startup costs are 150th of what it would cost to start up here. That is why they are setting up shop down there, and yet they are going to continue to live in Canada and just operate their store across the border.

**Ms Swift:** There are some firms doing that. For your information, we have a survey out right now on trade issues generally, and we are actually asking our members—we know we have heard anecdotal stuff, but we want to be able to quantify it—"Are you considering setting up an operation in the US or elsewhere?" The US is the most likely venue. And yes, that does happen. Let's face it, we hear from our members that they are willing to pay a premium to stay in Canada, but it is like the price issue for the consumer: Once that premium gets beyond a certain breaking point, they either have to go or not stay in business any more. It becomes a crunch issue. We are starting to hear that the crunch is being reached now; it is no longer that 20% differential they are willing to pay because they want to stay in Canada. They just cannot stay in Canada and continue in business any more. When you get to that point, you know, we are in big trouble.

**Mrs Sullivan:** I am very interested, as we go through these hearings, in the discussions relating to the competitive factors attached to decisions that ultimately purchasers make in going across to the States to buy merchandise. I have looked at several studies and I note that your study concentrates particularly on tax competitiveness. There are other factors that other economists have looked at, adding

them to the tax factors, including the cost of health, the cost of workers' compensation, the cost of hydro, for example. What they show is that, on a cost-comparison basis for the basic economic facts, there is more of a competitive factor than you would believe by just examining tax.

There are several major economists, not the least of which is the Toronto-Dominion Bank, which have looked at that issue. I think Coopers & Lybrand have done a study that is comparable, and I believe the feds have as well. The Ministry of Treasury and Economics has been making a study of a kind of a study for a period of time.

We understand the argument of the CFIB and that one particular sector of input that CFIB members are concerned about. I think the Toronto-Dominion Bank said that tax structure is verging on being uncompetitive part of the full component of costs and that any additional steps would put the tax factor right over the edge. You are saying it is already over the edge and there is still a discussion there.

1730

If we look at all those factors, I would like to have comments on what studies CFIB has done in relation to other costs. If your conclusion is that the other costs imposed by governments do indeed add up to a competitive factor, then what other areas provide the problems? I hear from retailers that one is the extremely high cost charged by wholesalers for goods supplied to them, partly because of Canadian standards, whether it is an energy efficiency standard in white goods or CSA standards on electrical products, or whatever. There is a sense among retailers in my community that a lot of the distributors and wholesalers are gouging. I just wonder if you would like to go from there.

**Ms Swift:** I am aware of the other studies that have been done. We never would presume to say that tax is the only stretch the only factor. It is one, and it is one that we chose to hive off in this particular study. We will certainly be doing more work to look at the wider factors. It happens to be one, though, where you can say, "Okay, that is actionable in this way," whereas things like the exchange rate and interest rates are driven not only by domestic factors but by international ones. We have control over that point, but we certainly do not have the control we have over our own tax levels. That was one reason we decided to focus on it.

Also, I think you should keep in mind that studies by the Toronto-Dominion Bank's and others look at the macro-picture. We purposely divided out small and large firms because in the macro sense you may find X is competitive, but it is the differential between small and large firms that is very interesting, and without exception small firms bear a proportionately higher burden. There are a lot of reasons for that.

Part of it is simply the same reason that the middle class pays the brunt of personal income taxes, because that is where all the numbers are and they have less mobility. As you probably well know, if you tax a large corporation more, especially if it is a multinational, especially if it is foreign-owned multinational, it just cooks its books and shifts its profits somewhere else and you end up actu-



ing less revenue for government as a result. The small business community is a much more captive, vulnerable market for taxers to get at.

In terms of wholesale prices, I was quite intrigued by data that Winter came up with recently where he just used a few product categories and tracked their evolution. There are a lot of things that affect what a Canadian retailer pays. We have members in the wholesale industry, too, of course. We have members right across the board and none of them is exactly rolling in dough these days either. I would be interested to see if American wholesalers are really gouging Canadian wholesalers.

I think we have to realize too that we do have a smaller economy. We do not have the same economies of scale; we never will. We never have, either, so that is not a new argument; that has been around for ever. That is not a causal factor, but it is a contributing factor and it is part of the reason why we usually tend to have a dollar that is valued lower than the US dollar. We do have certain cost advantages in this country—low population, large geography and all that kind of thing—which we are probably always going to have.

I do think there is undoubtedly some gouging going on here or there. I suspect there is never a time where there is not. I do not really have particularly good data on it, but I am pursuing some of the Winter analysis; it just intrigued me, because I do not know the answer. I know part of it is the third-country tariff. I know there is a difference in many areas, the tariff we pay in Canada versus the American competitor's much lower rate, so naturally our dollar is at a disadvantage right off the bat. And the chain of distribution issues and so on are all important contributing components, no question, but I do not have an answer as to where the gouging is most predominant right now. I just know that all businesses and all sectors are struggling here desperately in Canada right now, so I cannot imagine anybody is really raking it in in a big way.

**Mrs Sullivan:** Probably this issue has been exacerbated by the recession and may be seen as an easy out, as well, in terms of the identification of an issue that retailers can point to. Clearly the evidence is that the increase in cross-border shopping has had an enormous impact, but one of the decline in the retail sector may be related to the recession as much as to cross-border shopping.

**Ms Swift:** No question. It is the worst possible time for everything to be going in the same direction. There is no doubt it is a cumulative impact.

**The Chair:** Just while you are talking about economies of scale, one of the big selling points of the free trade deal was that Canadian businesses were going to be able to take advantage of economies of scale. In my riding, I met a manufacturer. He has been told that the parent company will not allow his branch plant to compete in the American market with the product that it makes there. So he has no economies of scale. He is confined to the Canadian market by a dictate from the parent company. Have you seen any kind of studying or matched any of that kind of—

**Ms Swift:** Not really. Naturally, we do not have any foreign-owned multinationals in our membership. One of

our membership criteria is the firm has to be Canadian-owned. I have heard that, talking with people in other business associations who do represent some of these larger firms. I do not think that is typical. In most instances, business is business. I know of some instances where it has turned out, for whatever reason—maybe there is a plant already there or whatever—a US plant has been shut down in favour of the Canadian location. So I do not think it is universal.

There is no doubt, however, that free trade and then cranking the dollar up to 87 cents was just unbelievably ludicrous policy-making, because all businesses were predicated on how they would deal with the free trade agreement on roughly the value of the dollar that prevailed at the time, which was around 82 cents; ideally, maybe even an 80-cent dollar, a little bit less.

**The Chair:** Sorry, the dollar in 1987, when the free trade deal was signed, was 72.5 cents.

**Mr Sorbara:** That's right.

**Ms Swift:** Was it that low?

**The Chair:** Yes, it was 72.5 cents. And what is interesting is that the central bank rate went up the Thursday after the free trade deal was signed. It started to climb and it has stayed climbing ever since then.

**Ms Swift:** Except for the last six to eight months or so. I do not subscribe to that kind of paranoia.

**The Chair:** I think I have one question left with Mr Mammoliti.

**Mr Mammoliti:** You mentioned earlier that in your opinion 95% of the public—I believe it was—know the damage they are doing to the economy by shopping across the border. Do you believe that we can work on their guilt perhaps, somehow? Perhaps advertising of some sort may be a solution. I do not know.

**Ms Swift:** I do not think it is a bad idea to expand that awareness as reasonably as possible, but still and all, knowing human nature, you know the big picture but what you do is what you do. As I said, I have been amazed at the very negative mail and phone calls from consumers who have heard me say—not necessarily that they are doing the wrong thing. You know what is motivating them and in many instances you have a lot of sympathy, because these are people who are out of jobs, who are operating on a fixed income if they are elderly, and so on. So you understand what is driving them to do it, but like I say, they get very mad at you for suggesting they are unpatriotic and that kind of thing, if that is the way they read it, and some have.

This sense of protest, "I'm not going to take it any more," is definitely out there in the consumer community. Our retailers are hearing it, post-GST in particular. That was a real sort of lightning rod. Things were bad before then, things have been worse since and they are hearing: "I'm not paying the GST. I'm going across the border."

So I do not think increasing awareness is a bad idea at all, but I think people are aware, and the more you try to work on that guilt, I think they will just resent you, to be honest, rather than change their behaviour.



**Mr Mammoliti:** Thank you for answering that. Has it increased substantially since 1 January, since the GST has come in?

**Ms Swift:** We do not really know, because some of the data are a little slow to come. Interestingly enough, coming down here today I just took off the wire at the office, "Sales at department stores tumbled in February after falling sharply in January, Statistics Canada said." These are national figures.

**Mr Mammoliti:** I personally think it has.

**Ms Swift:** Gotten worse?

**Mr Mammoliti:** Gotten worse.

**Ms Swift:** I think it has too, on the basis of anecdotal evidence. I just do not have a nice neat figure that it has gotten X% more.

**Mr Mammoliti:** That brings me to my next point. You mentioned earlier that we should not be pointing the finger, and I really believe that we should.

**Ms Swift:** Okay, let's say, not exclusively point the finger.

**Mr Mammoliti:** Let me finish. I believe that we should be pointing the finger. I believe that we have touched on three or four different areas that pertain to the federal government and what it has done to make this problem worse. Interest rates, the federal cuts and taxes are just examples of what we talked about.

**Ms Swift:** That is fine. We know you are going to point fingers because you are politicians and that is what you do.

**Mr Mammoliti:** But at the same time—

**Ms Swift:** Exactly.

**Mr Mammoliti:** —we do have to work together, and I am not convinced that the federal government wants to work with us. I am not convinced of that.

**Ms Swift:** In what respect? How do you mean? In harmonizing the GST with the PST?

**Mr Mammoliti:** No, in anything. Let's take the federal budget, for instance, and all the cuts that they have made. That proves to me they do not want to work together with us.

1740

**Ms Swift:** We do not say the political challenge is a small one, and we are very critical of what the federal government is doing too, as you probably know. That is fine. I guess what we see, and what our members certainly see—because they are the ones who are losing their homes and their businesses and something they have worked on for 20 or 30 or whatever years—is a lot of politicians pointing fingers with a lot of political rhetoric. No one is without sin in this particular area and in the whole broad area of economic policy. So pointing fingers is fine, but let us not do that exclusively.

**Mr Mammoliti:** It is just a comment, that is all. You mentioned it and I just threw that out because I feel guilty not pointing fingers.

**Ms Swift:** We would never want that to happen and we would never expect people not to point fingers.

**Mr Sorbara:** Just one final comment, Mr Chairman, because I am just sitting in on this committee. If our guests and our witnesses care to comment after, I would appreciate that. I have appreciated their testimony so far.

It arises from the comments that you were making, Chairman, about that manufacturer who is a subsidiary. I think you are right, and increasingly with the free trade agreement there is, among trans-nationals, going to be a dramatic rationalization of one North American market. It may be that a Canadian branch of that trans-national company has an opportunity to bid on supplying an identified portion of that North American market, but it may well be that the subsidiary or component of the company does not have the opportunity to bid. I think the unfortunate reality of the free trade agreement that we are saddled with now is that it takes away the opportunity to bid and to participate in supplying the North American market will be based on competitiveness and in a market that has in one jurisdiction 26 million people and in another market 250 million people, we are going to have to look at issues on competitiveness.

That comes right down to the question of cross-border shopping, to the extent that the indicia of competitiveness are way out of whack. The problem of having to stop and talk to a customs official is not going to be a significant impediment to the decisions that consumers make. Cleanliness and security are going to be minor issues. The harmonization of hours, the harmonization of standards are things that we are going to have to be confronted with.

It was, I think, central to the free trade debate what was going on in Ontario and Canada that our social standards would be threatened, and we are going to see that happening; and our safety nets were going to be threatened, and we are going to see that happen, because in some respects there is a growing concern and growing belief that we cannot afford them any more because the very economy is threatened. I do not have any answer other than, on the issue of cross-border shopping, I think it is crucial that we start looking at reasonable standards, given the marketplace that we really are in.

**Ms M. Ward:** In terms of taxation, I am looking at your charts here and I think one of the things that the Tax Commission will be looking at is different types of taxation and what is funding what. It seems to me that a shift from local municipal taxes to income—you know, a buck is a buck—would certainly be very beneficial to small business. Overall, you cannot expect to change the picture as a whole, because you cannot reduce the amount of money, but would you agree that it would be beneficial to small businesses?

**Ms Swift:** Yes, that is the main point we found in our research, that really the main reason small businesses ended up paying a higher dollar overall in taxes was that they had this higher component of income-sensitive taxes, in both local property taxes and payroll taxes. It does not matter if you are not making money. You do not pay income taxes but you sure pay all those other taxes. There is this stable chunk. Now, mind you, that is not true for governments like them, because you can forecast the tax income stream. Why do you think the GST has so much



deal? It is hard to escape paying it. That is the same  
g with payroll taxes. So from a government perspective,  
rally, the downside is that in a downturn you get much  
e of a hit on your revenues. Mind you, in the final  
ysis, do you want businesses around? Presumably, in  
long term, it is more desirable to have a functioning  
conomy than the dips in the recession of tax revenues.

**The Chair:** Thank you for your presentation this after-  
noon and your comments. The committee is adjourned till  
next Thursday.

The committee adjourned at 1746.

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 18 April 1991

The committee met at 1008 in committee room 1.

### CROSS-BORDER SHOPPING

#### UNITED FOOD AND COMMERCIAL WORKERS INTERNATIONAL UNION

**The Chair:** We will begin with the United Food and Commercial Workers International Union. Tom Kukovica, Tim Catherwood, if you would begin please.

**Mr Kukovica:** Thank you very much. You have a kit in front of you where on one side is our presentation and on the other side you have a photocopy of John Winter's survey which was done in May 1990. And there are some clippings from newspapers. At the same time, we have given you a copy of a campaign which our union is doing right now with companies in British Columbia.

The United Food and Commercial Workers International Union is pleased to have an opportunity to appear before the standing committee on finance and economic affairs to present our union's views on cross-border shopping. UFCW Canada is Canada's largest private-sector union, representing some 180,000 members in this country. UFCW members are employed in more than 20 sectors of the economy, including the retail, service, meatpacking, food processing, brewing and beverage production, fish, general merchandising, health care, shoe and leather, banking industries. UFCW presents more than 70,000 men and women in Ontario.

Our union is very concerned about the dramatic increase in cross-border shopping that has occurred in recent months; not just in Ontario, but all across Canada. We are concerned about the damage this is causing to the economy and the long-term harm that will be caused if this tide is not stemmed.

Cross-border shopping is causing the loss of billions of dollars of economic activity for Canadian businesses—losses for retailers, orders for manufacturers and business service companies coming from both consumers and service companies. Many thousands of Canadian jobs have been lost in the retail, manufacturing and service sectors and countless other jobs are threatened. Buying in the United States is reducing the revenues of governments at all levels, placing new pressures on the already strained fiscal condition of these governments.

There are several reasons for the increase in cross-border shopping:

The recession that has hit this country and is forcing Canadians to seek the lowest possible price for the goods they consume;

The high level of the Canadian dollar, particularly against the US dollar;

High taxes in Canada, especially federal taxes;

The introduction of the GST;

The promise of cheaper goods and easy border transit that was put forward by the federal government to boost the Canada-US free trade agreement, particularly during the 1988 election campaign;

Reduced duties on US-made goods under the FTA;

Lower prices in the US resulting from economies of scale, razor-thin profit margins, currency advantages, lower taxes, restricted social programs and the absence of regulations, lower labour costs and lower energy costs;

Lower gasoline prices;

Reduced enforcement of Canadian laws and collection of duties and taxes at the border;

Reduced confidence in Canada by many Canadians and US investment and advertising designed to attract Canadian shoppers.

The increase in the number of Canadians shopping in the US has been monumental. This has occurred all across Canada at border points from east to west.

In December 1990 alone, 5.5 million Canadians crossed the US border, an increase of 24% or one million people over the same month a year previously. Of these crossings, 4.5 million were one-day trips.

At the Ambassador Bridge and Windsor-Detroit Tunnel, the number of persons paying duty on goods coming into Canada has increased 500% over the past three years from April 1988 to March 1991. Fifteen thousand vehicles now cross the border in the Niagara region daily.

In British Columbia, cross-border shopping trips increased 400% between 1987 and 1991. Statistics Canada reports a 15.2% increase in shopping in the US in January 1991 over the same month in 1990. Sources in US border towns are reporting an 8% to 10% increase in sales per month. And to see the effect that this is having on Canadian sales, one could look at January 1991 when a snowstorm hit the lower mainland, all but stopping cross-border shopping. During this shutdown, Canadian milk sales jumped 15% to 20%.

It is hard to calculate how many Canadian jobs have been lost because of cross-border shopping. In trying to measure these losses, the recession, the FTA and the many other causes of job loss in Canada must be considered. Losses must be also measured in terms of direct losses and indirect losses which occur in related or service companies and sectors.

In January 1991, the Canadian Council of Grocery Distributors estimated that Ontario alone was losing \$3 million per week to the US in grocery sales, and this is translated to 1,000 full-time and part-time jobs lost.

UFCW knows that between June and November 1990, 202 full-time jobs disappeared at A&P in Ontario. At Loblaw's, the total number of hours worked decreased by 3.14% in the period June to December 1990. In both cases,

these losses occurred in spite of the brief advent of Sunday shopping.

To these job losses can be added many hundreds of workers who have suffered and will yet suffer from lost hours of work. In many retail food stores and throughout the service sector, workers, often part-time and largely female, are seeing the number of hours of work available to them lowered by 50% to 75%.

You have to understand that in the service sector, 75% of all the jobs are held by part-time people. So it is very hard to measure how many layoffs there are because part-timers do not get laid off. The part-timers lose hours of work, from 20 to 18 to 15 to 10 and finally to a minimum of maybe 4 a week. So it is not necessarily layoffs, but it is hours lost.

Beer sales in Ontario have been hard hit, particularly in border towns, where there has been a sales decline of up to 50%. We represent all the Brewers Retail stores in the province of Ontario. The brewing industry is, however, an important one to Canada. It provides good employment and strong benefits to a number of other sectors, as well as significant revenues to government.

The job losses and reduced hours are causing lost business and employment in related and service sectors. For every job lost in the retail sector, at least one other job will be lost in manufacturing, wholesaling, farming etc. For example, the Canadian Council of Grocery Distributors has reported that in addition to 1,000 grocery industry jobs being lost, another 1,000 jobs have been lost as of January 1991 in the distribution and farming sectors.

We must all be concerned that the job losses that have occurred so far will increase and multiply as the GST's full impact is felt, the recession continues, unemployment rises and the lost business works its way through the economy into the manufacturing and service sectors. More job losses and many plant closures can, unfortunately, be expected unless action is taken to stem the flow of Canadian dollars to the US.

In terms of volume of sales lost, the story is a disaster and getting worse. In British Columbia, the loss of business due to cross-border shopping is expected to exceed \$1 billion in 1991. The figures for Ontario will be far greater, perhaps more than \$2 billion.

The major areas of loss are in food, gasoline, liquor, beer, shoes, clothing and electronics, with food appearing to be about half of the total spent in the US.

In terms of gasoline, figures from the Niagara region show that sales fell from 400 million litres in 1988 to 300 million litres in 1990. It is estimated that more than 50% of the 100 million litres of gas used yearly in Sault Ste Marie is now purchased in the States.

The major causes of cross-border shopping have been created by the federal government. The federal government's policies have destroyed Canadian industry and caused the loss of thousands of Canadian jobs. Throughout, the government in Ottawa has worked to shift the burden for the changes they are forcing upon the economy squarely on to working men and women and their families. Canadians today are facing enormous pressures because of unemployment, uncertainty over their financial

security, reduced incomes, increased taxes, the GST, continued high interest rates.

Canadian businesses have also suffered from federal government policies. A combination of policies served to reduce their competitiveness and make them vulnerable. These policies include high interest rates, the value of the Canadian dollar, the lack of any form of industrial strategy, the lack of Canadian research and development, problems created by the imposition of trade policies, notably the GST, reduced tariffs under the trade agreement and the removal of federal assistance subsidies with no new programs to allow Canadian businesses to gear up to compete in the global marketplace.

The economic policies of the federal government have been a disaster for business, for workers, for the country.

## 1020

Many Canadians have, unfortunately, lost confidence in Canada. Many Canadians now feel that they must look out for themselves and they are displaying less concern for their neighbours, their community, and the state of the country. They are being led to abandon what has been true in this country and to look away from the bright future that once was ours. In the process, Canadian jobs and industry and the tax base at all levels are being damaged. In the long term, Canadian social programs and services and indeed our standard of living are threatened.

The uncertainty and loss of confidence that have been created have served to push consumers towards lower prices or at least what they perceive to be lower prices. In particular, older consumers, families with restricted incomes, and persons who have become unemployed, are under pressure to buy where the prices seem lowest.

Where it could once be said that the propensity to shop across the border could be related to distance, many people in Ontario now appear willing to travel further and more frequently in search of better bargains. This has made much of Ontario, in fact, a border community.

The federal government's 1988 free trade campaign and particularly the promise of lower prices resulting from the agreement, served to raise the awareness and expectations of Canadians with regard to prices. It served to highlight the possibility of lower prices in the US and remove Canadian consumers' guilt about cross-border shopping.

The new psychology was, to an extent, reinforced by the appreciation of the Canadian dollar vis-à-vis the US dollar that occurred in 1988 to 1990. The appreciation effect gave Canadian consumers a new discount for shopping in the US. In the recent months, the continued high value of the Canadian dollar has led many consumers to treat the dollar as being at parity with the American dollar. This viewpoint would not exist with a more realistic Canadian dollar value.

Sunday shopping has nothing to do with cross-border shopping. Canadians are going to the United States in record numbers and these numbers continued to grow even during the period when stores were open in Ontario on Sundays. In British Columbia, where Sunday shopping existed for a number of years, the existence of open Canadian stores has not slowed traffic to the US. Canadian



tended to make their trips to the US on Friday to day—the traditional weekend—or on one of these days, all in search of better prices, not Sunday shopping. To illustrate this point, in a Windsor telephone survey in May of 1990, John Winter Associates Ltd, asked the following question: "In the near future, do you think your shopping in the United States will likely increase, decrease or remain the same? Why?" Not one person responded that Sunday day openings or closings would increase or decrease shopping in the US.

Under these circumstances, Sunday store openings in Ontario have no value and merely serve to increase Ontario retailers' costs and disrupt and erode the lives of workers and their families.

The pricing systems for retailers in Ontario and the United States are very different and seriously impact on the ability of Canadian stores to compete with many prices in the US. It is difficult to understand why suppliers charge Ontario retailers more than American retailers for the same product, including identical brand-name products. It is, however, easy to see that such a differential, which can be up to three times the US price, has an effect on the ability of Canadian retail firms to compete. This differential represents a bigger problem than higher taxes which are in turn used to support valued social programs and government services.

In the area of agricultural pricing, American support for farmers comes through taxpayer subsidies, while the Canadian system works on the basis of supply management programs. The result is that the American approach does not tend to affect the shelf price of products, while Canadian prices are directly affected by marketing board decisions. This differential is a major reason why turkeys in the US, for example, can cost as little as one third of the price of Canadian turkeys.

Canadians are proud of the standard of living that has been achieved in this country and wish to see it maintained. We are proud that many serious social problems that exist south of the border have not become serious concerns in Canada. We are also anxious to see important valued Canadian social programs and government services, municipal, provincial and federal, maintained.

Canadians who shop in the United States should consider the kind of society that exists south of the border and ask themselves, "Is this what I want in Canada?" Do Canadians favour a society where one in four children under the age of 12, or some 17 million children, go hungry; 32 million people live below the poverty line, which is set at \$200 per year for a single person and \$12,675 for a family of four; and three million people are homeless, including some one million children?

Canada is a country with admirable and desirable strengths in municipal, provincial and federal services, health care, social programs and standards of living. These strengths do not, unfortunately, count in the price of the product, but without them, the enjoyment Canadians get from using products will not be the same. We do not believe Canadians want to give up these benefits, but at the same time, they must realize that it is not possible to have the cake and eat it too.

Every dollar spent in the US represents one less dollar to be spent in Canada, one less dollar to employ a Canadian worker, keep a Canadian business operating, pay for a service and keep a community strong and vibrant. While we understand what has caused cross-border shopping, we none the less say it cannot continue. If it does, Canadians must realize what the price will be in terms of employment, services and programs and our standard of living.

While it is essential to stop or at least slow the flow of cross-border shopping as quickly as possible, it is also important not to develop Band-Aid solutions or quick fixes that will not last. In this regard, UFCW Canada is prepared to work with the government of Ontario to develop and implement lasting workable solutions to this problem which will strengthen the economy of this province and benefit all the people of Ontario. We believe there are a number of solutions to the problem of cross-border shopping that should be examined.

In our view, most of the solutions required to address the cross-border shopping problem only the federal government can bring about. This includes reduced interest rates, a realistic dollar value, elimination of the GST, policies that promote fair taxation for Canadian workers and policies that promote full employment and development of the economic potential of Canada's regions.

In addition, only the federal government can take steps to ensure that Canadian laws are enforced and taxes and duties are collected at border crossings. Clearly, the resources committed to this tax are woefully inadequate, and in spite of the best efforts of customs employees only a portion of the duty and taxes due are being collected.

UFCW Canada supports the efforts of the customs and excise union of the Public Service Alliance of Canada that are aimed at securing more border personnel and enforcing better collection of duties and taxes. It is estimated that 1,000 new personnel are needed to adequately deal with the flow of cross-border traffic. Revenue Canada, Customs and Excise, has in fact acknowledged this by requesting resources along these lines from Treasury Board.

Unfortunately, the resources needed are not likely to be committed by the federal government. The Minister of National Revenue appears to be more interested in smooth traffic flow than in addressing the problems of lost revenue and smuggling, let alone the loss of Canadians jobs and industry.

Consideration should be given to developing a new border levy for shoppers crossing the border. Just as persons involved in airline travel and commercial traffic to the US pay for customs service, so too should cross-border shoppers.

It is important that tourists coming to Canada not be impeded by cross-border traffic nor be charged any fee for border transit. We should do everything possible to encourage Americans to visit Canada through express lanes at the border and special promotions or advertising.

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The government of Ontario has recognized the seriousness of cross-border shopping and is anxious to work with labour and business to find solutions to this problem. Given the province's limited jurisdiction in this area and



the difficult economic and fiscal conditions in Ontario, the provincial government has limited room to manoeuvre.

The provincial sales tax must be collected on all goods bought by Ontarians in the US. The province should also explore the feasibility of applying special charges on goods brought over the border, especially by same-day shoppers. If we are to lose revenue to cross-border shopping that will impact on Ontario jobs, business and government programs, this revenue should be largely recovered.

The best answer to cross-border shopping may be to have the province join with labour and business to convince shoppers to stay home and put their money to work in Ontario to create Ontario jobs, Ontario industry and a strong economy in the province.

A strong campaign should be launched that will explain in clear terms what is at stake and what is lost when Canadians shop in the US. This campaign should reach every worker and every household to explain that while cross-border shopping may produce short-term savings, it is irreparably damaging the province's economy, causing the loss of jobs and threatening our ability to provide valued, quality social services and programs.

The labour movement has a key role to play in such a campaign. Unions should communicate with their members to encourage them to stay home and buy in Ontario. Employers and business should use their resources to promote a "Buy Ontario—Stay at Home" campaign. Companies could advertise, tie their involvement in the campaign to promotions and discounts and do what they can to set fair and stable prices.

The provincial government can be the catalyst for this joint venture campaign. The province can provide leadership and work to draw labour, business, the municipalities and community and social groups together. The government could commit resources to advertising and to developing information materials for distribution.

Together, the partners in this campaign, who must also be partners in building a better future for the province, must pressure the federal government to join with them in the campaign and to take the immediate steps required to reduce the pressures that are behind cross-border shopping. We must stem the flow of goods across the border.

Cross-border shopping is a critical problem that must be addressed quickly for the benefit of everyone. A great deal is at stake: jobs, economic activity, the ability of governments to sustain programs and services and, in the end, our standard of living.

UFCW Canada stands prepared to work with the provincial government, business, the municipalities and community and social groups. Together we can beat this problem, and in the process build a stronger future for Ontario and Canada.

Let me just make two other comments. One is that yesterday Statistics Canada reported that same-day trips to the US went up by 27.3%, and 3.9 million people went over the border in February 1991, which was an increase from 3.1 million a year ago.

The other thing I want to add is that there is a perception by consumers, by everybody, I guess, that going on one-day trips and shopping in the US is legal, which is a very false perception because it is totally illegal unless you pay

duties and taxes. There are a lot of consumers who they are allowed to buy milk and meat in the State; bring it across. It is totally illegal. You are not allowed to bring meat across the border. It is against customs regulations. But what is the federal government doing? Absolutely nothing. There is no campaign to tell customers they are not allowed to buy some of the products, that it is illegal.

I had never been across the border in Niagara Falls in my life. I went there two weeks ago. Let me tell you my experience: I went over the border, and when I came back the same day at 6 o'clock, I got a slip of paper saying, "What did you buy?" I bought exactly \$202 worth. So I said, "Go to customs, and please pay." I went to customs and had to wait an hour and a half to get a number, and I had to wait another half-hour to pay; I paid \$56.25 duty and tax. What I saw amazed me. I saw customs people asking customers with the same slip as me, "How much did you have on your slip?" Anybody who had below \$105 was told: "Don't bother. Please don't go inside and get a number. Don't pay, just go on." That is what is happening in cross-border shopping.

**Mr Jamison:** I have a couple of questions, but the first one is if you could expand on your proposed levy for cross-border shoppers.

**Mr Catherwood:** I am not exactly sure of the details, but the idea would be that, just as your airplane ticket has a customs charge built in or truckers are charged as they go across the border, some sort of fee should be put on same-day shoppers, \$5 or \$10, just to make the point that when you go across and back there is a cost involved, just to act as somewhat of a deterrent.

**Mr Kukovica:** I guess the other point is that if you know the law, that you are not allowed to shop in the States the same day without declaring—you have to be outside the country 24 hours to bring in \$20 worth.

**Mr Kwinter:** You have to be outside 24 hours to bring in \$100 worth, but you can be out for the day and bring—

**Mr Kukovica:** Sorry, it is \$20 the same day, \$100 24 or 48 hours, and \$300 once a year, after seven days. The perception is that you are allowed to shop at any time and bring back anything you want.

**Mr Jamison:** We have been told by other groups that when the GST was actually implemented there was a noticeable jump in cross-border shopping. Some groups have indicated the increase was as high as 15% or 20% with the advent of that tax. Have you any background on that, anything to add?

**Mr Catherwood:** The numbers we have are probably the same as you have heard. For example, in British Columbia it went up 15% the first month, in January, and sales across the border stayed at that level. I do not think there is any doubt that consumers are more conscious of the price of things they are buying nowadays because of the GST, that sales on this side of the border are down because people are going across there to avoid the GST.

We have seen ads out of American border towns where they flaunt the fact that if you buy down there, there is no GST. Somebody told me a story about being in Florida and



eball game, and the world's best salesman was there. When he came up the aisle to sell cold beer, and he knew the place was full of Canadians, he yelled, "Cold beer, no T," and he sold more than he ever had before. People are aware of the fact that the GST exists here and it does not exist down there.

**Mr Jamison:** You also cite the high level of the Canadian dollar as a major factor—almost a par situation. What are your opinions on that?

**Mr Catherwood:** The problem has been twofold, in my view. First of all, the Canadian dollar went up quite a bit against the American dollar over the period 1988-90. It went from around 75 cents at one point to about 88 or 89 cents. People saw that as a discount: suddenly you can buy American goods, and our dollar is stronger. That has leveled off. People now view the dollar as nearly being at par because there is only a 13-cent difference, and often if you go across to Buffalo or Detroit they accept the dollar at par. The problem is that you cannot just dramatically drop the value of the Canadian dollar or you will create inflation and a lot of other problems. But certainly the dollar should be at a more reasonable level, and whether or not you do that over time, that is probably the way to go.

We have got ourselves into a situation where we do not have just one or two problems; we have a whole lot of problems that have compounded themselves. We must work our way out of it by lowering interest rates, lowering the dollar to a reasonable level and trying to get rid of the T. It is a monumental mess, we recognize that, but I think unless you start to pinpoint what the problems are I say, "We're all going to work together to find the solutions," we are going to continue on this downward spiral.

**Mr Jamison:** I have just one final question.

**The Chair:** I am going to start restricting people to the question, and go through the list again if we get to it.

**Mr Jamison:** I understand that, Mr Chairman, but I am going on past experience here. I have jotted down four questions, and I have one—

**The Chair:** I will put you on it to get your questions in.

**Mr Jamison:** The last one, really, is the one I would like answered.

**The Chair:** Quickly.

**Mr Jamison:** There is a reference in your document to a difference in the price for which the retailer can purchase similar or the same products. That has been brought to this committee in other reports. Have you any further background or examples to offer?

**Mr Catherwood:** Our stuff is largely anecdotal. You hear about these things virtually everywhere you go. Anytime you sit down to have a conversation about the problem of cross-border shopping, somebody comes up with an example. I will use one the Canadian director uses, as he is my boss. He is talking about a coffee filter that is made in Scarborough—I do not know the name of it, but I could find out for you—that can be bought up here for \$1.29 in stores. The same thing, apparently, is available in Buffalo for four for a dollar. I do not know how that happens. You

have to ask yourself questions about it. Maybe this is one thing the committee should be looking at, doing a study of why we are having these different kinds of problems. For our members, that is a direct problem. People do not buy coffee filters in our stores up here for \$1.29 if they know they can get four—

**Mr Kwinter:** Are you saying that a product that is manufactured in Scarborough is being sold in the United States for four for a dollar and it is sold here for \$1.25?

**Mr Catherwood:** Yes, \$1.29.

**Mr Kwinter:** I would challenge that. I do not know anything about it, but they would be dumping if they did that. You cannot do that. It is one thing to have a comparable product. You cannot sell a product in another market below what you sell it for in your own market. That is called dumping and the people who manufacture it in the United States would be jumping all over them and charging them with dumping.

As I say, I have no information whatsoever, but I would challenge that.

**Mr Catherwood:** I do not doubt that you are right, it is dumping. I am just telling you this is an example that we have heard of, and if you like I will go back and find out precisely the name of the product and precisely the reference and I could get that information back to you. If that kind of stuff is going on, it is not only hurting Canadians, it is going to hurt us in our relations with the Americans too.

**Mr Kukovica:** I just wanted to add a comment. I think the problem in pricing is not with the retailer. From our experience, we think that it is the with distribution, and if you want to make a study of it, I think you should check the suppliers.

Let me give you a good example. Why is a Polaroid film from the same US production line, without any import duties, three times more expensive here? Toronto is the fifth largest market in North America. Why are the wholesale prices higher? Why?

We do not understand. We do not know, I do not know why, but that is the question you should be asking yourself. I think it is the suppliers. If you were going to do a study or commission any research, you should look into the suppliers, what they are charging the Ontario retailers versus what they charge US retailers. That is our thinking.

**The Chair:** Okay, to make sure that everybody gets a chance for their questions in 15 minutes, we will restrict it to one each. Mr Hansen, please?

**Mr Hansen:** I read on page 4 here, decline of beer sales up to 50% and I think what we have to look at is not just people living in border towns, but people living in Toronto who are employed in the brewery industry. A lot of people say, "Oh, that's a problem down at the border," but it is actually affecting people who live away from the border.

I agree with this report. We do have some problems with the federal government, especially coming to an agreement that a lot of these problems we cannot solve without a partnership between the federal government, the provincial government and the communities along the border.

There was an article here, "Savings Ontario." That was something I brought in a while ago, and I think that it is working to a certain point. We have to educate people on how cross-border shopping affects people here in Canada or in Ontario. As it comes out in the report, it is immediate savings you are getting now, but down the road it is going to be a loss of income to a lot of people here in Ontario.

What do you feel is the one most important thing we should do? What would be your number 1 priority? We have seen your conclusions, we have seen some of your things, but what would you say would be the first thing for the Ontario government to do in this situation?

**Mr Kukovica:** Let me combine that with enforcement, strict enforcement.

**Mr Hansen:** That is number 1.

**Mr Kukovica:** I have seen it with my own eyes. I could not believe it. Strict enforcement and education, a good campaign to educate the whole population about buying in Ontario and what exactly they should be doing. Those are my two things: strict enforcement and educating the people.

**Mr Kwinter:** I only have one question?

**The Chair:** And a short preamble too.

**Mr Kwinter:** Okay, there is one issue I would like to address. In two different places in your presentation you talk about the reasons for cross-border shopping and you say "reduced duties on US-made goods under the FTA." Before the FTA went into effect, 80% of all goods and services in Canada were duty-free. The 20% that were still subject to duty had an average of between 7% and 10% and that is going to be reduced over the next 10 years. We have been two years into the free trade agreement, so, if anything, that 7% to 10% that is still in place has come down at most 2%—at most. Could you give me an example of one product that is bought by Canadians over in the United States that has been reduced because of the free trade agreement?

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**Mr Kukovica:** That has been reduced or thoroughly eliminated, that there is no duty?

**Mr Kwinter:** That had a duty before and does not have a duty now.

**Mr Kukovica:** Yes, crystal, the best example. I was in a store in Niagara Falls, NY, and let me tell you how they advertise. They advertise duty-free, "Crystal is duty-free now and you won't pay any duty." It is in the store. It was a crystal store, strictly selling crystal and glass and things like that. It was marked duty-free.

The best example I can tell you, I went to Black and Decker—

**Mr Kwinter:** Well, let's stick with crystal.

**Mr Kukovica:** Let me give you the other example. Black and Decker: On each product it said, "This is duty-free. There is no duty on this because it is produced in Canada." Their signs read, "Here is 6%, here is 10%," each product in this Black and Decker warehouse had the exact duty you had to pay: They were advertising it strictly

for Canadians, saying, "This is the duty you have to pay but here it is duty-free because it is produced in Canada."

**Mr Kwinter:** With all due respect, whether you have a free trade agreement or not, if you bought a product in the United States that was made in Canada and brought it back, you could claim back the duty if you had paid it, because there is no duty bringing a product that comes out of the country back into the country.

But what I want to get to is your crystal. You see the concern I have—and I do not want to give you a tough time—is that a lot of your stuff is anecdotal, "I was in a store and I saw this and I feel this and as a result I think this is important." The point I am making is that I do not know if there are, other than Steuben, very many companies in the United States that manufacture crystal.

You have to understand that tariffs are there to protect Canadian producers who, because of economies of scale, cannot compete, so the government puts up a protective tariff.

Now, I do not know of anybody in Canada producing crystal. I just do not know. There may be, but I do not know of any. As a result, I again suggest to you that there is no duty on crystal. Now, some hotshot retailer just says your beer salesman will say, "Buy my beer with no GST." They could put a sign in the window to attract gullible Canadians saying, "Here is your crystal duty-free." "Duty-free shop," but there was no duty on it to begin with.

What I would really like is, give me a product that has changed dramatically as a result of the free trade agreement. Again, I am not trying to give you a tough time, but I think and if I had the time I would go through several of the other things that you have said that I do not agree with that we have to zero in on the root cause of the problem and I think it is your number 1 issue. Prices are cheaper there, period. That is the reason people are going there because they can save some money. I just wanted to see if we can zero in on the basic problems.

**Mr Kukovica:** Okay. Let me give you a couple of examples of what you are saying is not true. Prices are not cheaper necessarily. I will give you another example, and I can document it. Price Club in Toronto and Price Club across this province sell Nintendo Action for \$116 Canadian. In Buffalo, \$114. So what the hell is the difference? So they are not cheaper. You know, for \$2 you are not going to save and buy Nintendo, because you are going to pay—

**Mr Kwinter:** Yes, but you are going on the assumption that everybody lives or dies with a Nintendo set.

**Mr Kukovica:** No, but you are talking about prices being cheaper everywhere. Prices are not necessarily cheaper.

**Mr Kwinter:** But you made the whole argument about why there are lower prices and now you are saying that it is not true that there are lower prices.

**Mr Kukovica:** No, what I am saying to you is the problem is with the suppliers and not with the retailers. Look at the suppliers; why are they charging more for the same product, the same line? I give you again Polaroid. Why is Polaroid film—which is manufactured in the same place, comes out of the same line, no duty, nowhere, nothing—why are they selling it two to three times higher in Ontario?



**Mr Kwinter:** I agree with you, but I am saying in the meantime they are selling it three or four times more extensively and that is why people are going to the States. I think we have to address that.

Interjection.

**Mr Kwinter:** All right. Sorry.

**Mrs Sullivan:** I am going to be following the same line questioning as Mr Kwinter, because I have problems with one of the conclusions you have reached in your brief.

For instance, you have indicated that you believe there is far more of a federal responsibility to deal with these issues and less of a provincial responsibility. However, one of the proposals that you put forward relating to provincial responsibilities discounts Sunday shopping. As an issue, I have certainly heard other testimony before the committee and analysis that indicates that the availability of Sunday shopping is in fact a factor.

We have also heard you put forward a proposal suggesting a new provincial levy or tax on products at the border—clearly countervailing, clearly in opposition to arrangements under GATT. There would be very serious problems with this kind of effort. I wonder if you have looked at those things.

Once again, because you have concentrated a lot on the question of duties, I want to go back to the fact your analysis goes all the way through talks about prices. In fact, frequently the prices of goods—and 99% or 98%, whatever the studies tell us, of consumers who are shopping in the United States are shopping because of price—those prices, including duty, are lower than they are in Ontario.

I think I would like to hear more of your views, first of all relating to what I believe would be a countervailing action that you have suggested for the province to take, and second relating to the price factor.

**Mr Catherwood:** It may well be that something like that, depending on the type of charge that you put on it, could be subject to countervail, but at the same time I think we have to have concern in moving forward like the federal government. They talked about creating evenness on both sides of the border. We have got a lot of people—

**Mrs Sullivan:** You have mentioned a limited action area for the province. I want you to zero in on the action that you have suggested that the province take. Leave the rest out of it for now and talk about the province.

**Mr Catherwood:** I am doing that. What I am saying is that we do not have a situation where fair play is being played on either side of the border and that has to be a concern to us.

I am not sure what such a charge would be. The reason we propose a special charge is because I am not an international trade lawyer and we do not happen to have one on staff, but the idea of having some way of recouping the revenue is something that the province, we think, should explore. If it is not possible and it is going to get us into problems with countervail, then that is an idea that has been thrown out and discounted. But if one does not raise ideas, one is not going to come up with solutions. It is that simple. I mean, we are making as many suggestions as we can.

We are also saying, "Hey, listen, we'll pitch in and do everything we can," not only just because we have got retail members but because we have got manufacturing members, we have got service members, we have got people who are taxpayers. We are a responsible labour organization in this province and we want to see a better future. We do not think this game is being played fairly, and the people who have got us into this mess—and maybe we have got to do some things ourselves—we have all got to find a way to work together to get out of it.

I cannot argue with you and Mr Kwinter on international trade law, because I just do not understand it. I cannot be a specialist in those things. But I do know that where there is a problem, we should try to find the solution.

**Mr Sutherland:** You state that you are the largest private sector union in the country. You also make some comment in terms of educating your own members and you provided some information on British Columbia. I was wondering what you thought about the efforts of the labour movement in the province as a whole, in other sectors outside the retail and service sector, whether you feel that many of their members are aware of this issue and aware of the impact. Some of them are obviously doing some cross-border shopping. I do not think we can exclude them. I was wondering what you see labour movements, both provincially and federally, doing on this issue, and particularly trade union members.

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**Mr Kukovica:** There is no question that the labour movement has to do its part, and we would definitely be willing to run a campaign with the Ontario Federation of Labour in educating our membership, the whole membership of the OFL and in general about cross-border shopping and the problems that it creates. There is no question that some of our members are crossing to the other side, not only UFCW but all the other shoppers. We would work jointly with the Canadian Labour Congress at the same time across the country.

The best example I can give you is what we are doing right now in BC. It is our union. We have taken the initiative. Nobody else wanted to do anything about it. The government did not want to do anything about it there. We went to management, the employers, and asked them to join with us in a campaign to educate the membership, to educate everybody there about the problem of cross-border shopping. We are running a major advertising campaign of education, between UFCW and the employers that are mostly affected, the retailers, some of the suppliers, and all of the others. So I think, yes, the labour movement has a role to play in educating the membership, no question about it, and I still believe that is one of the biggest problems, enforcement and education of the population in general.

**Ms Harrington:** Just a couple of brief comments. After I heard your discussion, I thought, would you like to come down to our local radio station in Niagara Falls on a talk show.

**Mr Kukovica:** No problem. Any time.

**Ms Harrington:** No problem? Okay.

**The Chair:** Is that your question?



**Ms Harrington:** Not quite.

**The Chair:** It is 11 o'clock.

**Ms Harrington:** I do thank you for your excellent brief. Can I use it back in Niagara Falls?

**Mr Kukovica:** Sure.

**Ms Harrington:** I want to dwell on a couple of things. First of all, I believe you are right about strict enforcement. I think we have to do that, and also education. The labour movement and everybody else has to get into this. We as politicians cannot stand up and say, "No, no, no." I think it has to come from the grass roots as to how it is affecting them.

You mentioned that it is people of low income, etc, who really need to get those bargains, and I can understand people—they are in my community—going over there every day to do their shopping. My problem, I think, is that there are a lot of middle-income people, people with good recession-proof jobs, upper-middle-income people, who go over there for big shopping trips, and I have a concern with that. In fact, I just spoke with people from the Ontario Secondary School Teachers' Federation a couple of days ago here at Queen's Park, saying: "Isn't there any way we can work together"—that is, the OSSTF—"and try to educate us? What are we really doing to ourselves?" So I think that is the way to go.

I agree with you that the Sunday shopping issue is a different issue. That is from my perspective in Niagara Falls.

I wanted to get back to a proposal that was made to me last weekend about changing the gas taxes in concentric circles close to the border. Do you think there is any merit in that?

**Mr Kukovica:** We personally believe not, because where do you stop? What is it, is it 15 miles, is it 20 miles? Where does it stop finally is the problem. I do not know. I come from Quebec and I lived 30 years there. Why do you not look at the experience of Quebec when they introduced the gasoline tax credit and see what that did? I remember, I was there. We had a fight about a month after they introduced it and said it was only a 10-mile radius. The people who were just on the other side said, "Well, we want it too."

**Ms Harrington:** You do not think it has been effective?

**Mr Kukovica:** I am not so sure it has been effective. I do not have the stats, but you would have to look at that.

**Mr Phillips:** You have provided I think some of the most compelling testimony, for me anyway. I think you said two weeks ago you went shopping in the US.

**Mr Kukovica:** Specifically for that.

**Mr Phillips:** It struck me as really odd that you were in the US. We have got a really major job; you are coming before the committee; I suspect it is going to be relatively difficult to tell people, "Be a good citizen," and what not, because you yourself head over to the US. I suspect that if you did any study of who is crossing over, it is a pretty broad cross-section of people. But my question really is, have you considered that maybe we have a different way of living here in Canada? As I think you have pointed out in your brief, we have different social values. Maybe we have to accept a different standard of living because we

distribute our wealth in a different way. I do not know whether that has occurred to your union or not, what you have looked at it.

Listen, maybe we are going to have to—all of us; not mean just your workers but all of us—accept that we cannot look at our counterparts across the border and we need exactly that standard of living if we are going to do the things you talk about in your brief, to deal with poverty, to deal with housing problems. I am just wondering whether that enters your discussions or not, that maybe in negotiations we are not going to be able to see exactly the same remuneration as our counterparts across the border because a portion of ours will go to looking after people who are less fortunate. That is my basic question: Do you compare yourself to the US, or should we be looking perhaps a little different standard of living here in Canada?

**Mr Kukovica:** I negotiate. That is my job, to negotiate across the country from coast to coast. Let me tell you, do not compare ourselves to the States at all. In British Columbia—the best example I can give you—in the retail food industry we have the best collective agreement in North America, so we do not follow the trends of the States.

**Mr Phillips:** Best in North America?

**Mr Kukovica:** Best in North America. The best collective agreement in North America is in BC.

**Mr Phillips:** You do not look at the US?

**Mr Kukovica:** It is with Local 1518 UFCW and Retail Council of Canada, so we do not look at all at the US in that sense, because we create patterns in the retail food industry, at least in the collective agreements. Years ago it used to be the reverse. No question about it, years ago—I mean, we are an international union—when northern and southern California negotiated the retail contracts, 110,000 members, that was the strict North American pattern in the retail food contracts. But now it is the reverse; it is BC that sets the pattern across North America. I have not personally come across any analysis or anybody who has come to us and said, "We have to have a concern in negotiations because of cross-border shopping."

**Mr Phillips:** Just to follow that up, if I might—

**The Chair:** No, sorry, because we are way over time and we have two more questioners.

**Mr Phillips:** That is the best in North America?

**Mr Catherwood:** I want to add just a tiny bit to that. What we said in the brief, Mr Phillips, is no different than what we will say to our membership. I think people have to seriously look at what we are doing and where we want to go in this country. We have to say:

"Do we want to be like the Americans and what we see on television all the time or do we want to recognize that what we have built in this country is second to none anywhere in the world? And if we want to maintain it, then we're going to have to fight for it, we're going to have to fight together, we're going to have to work together to do it."

It could be that as these changes are occurring in the economy—and you know as well as I do there are all kinds of reasons why the economy is changing, society is changing, the labour market is changing—as these things



work their way through, it may be that our standard of living is going to change. But we should be thinking about it and we should be making some conscious decisions. We should not just be jumping across the border to save 10 cents on a pint of milk or something without thinking about what that does to us in the long term.

This is the message that we are going to take to our membership. Maybe we will not send Tom out the first week but we will take this message to our membership. I think it is not just our union that will do it, but through the CLC and the CLC we will do it to all union people and try to reach them in their homes and in the workplaces. We have got some fundamental decisions to make in Canada about where we are going and unless we have some constructive dialogue, the kind that we are suggesting here where you are prepared to throw ideas out and have them run down and try again, I do not think that we are going to solve this problem which, to me, has reached a crisis.

**Mr Dadamo:** I wonder how many cars have crossed the Ambassador Bridge in Windsor while I waited to ask you these questions. Let me say that I could talk to you about this subject for many hours. I have lived in Windsor most of my life. The Ambassador Bridge is in the riding that I represent and I have heard all the stories, so what you are telling me here today is really nothing new, but I thank you for the brief anyway.

I feel compelled to say that it is not fair for the provincial government to be reacting to a Prime Minister who has put us into this predicament. Now the provincial government has to work out some of the solutions and try to do the best it can. After all, they have given us the GST and free trade, etc.

I also want to say that my wife is a customs officer at the Ambassador Bridge, I have many friends there, I have heard all the stories. You mentioned earlier about the customs workload, that we need many more people to work there, they are not well enough equipped to handle the flow. Yes, you are exactly right when you say that they have people through on \$20, \$50 and \$100 because they cannot keep up. That is exactly right, and that answer has to come from the federal government, not the provincial government. You are right on that point. I also want to say that we should be hiring people there and trying to get them through the best way we can.

But there is also another point in trying to collect the provincial portion of the taxes. It sounds good, everybody has been saying we should be collecting the provincial taxes, but we also have to realize that along the way it is a bureaucracy, it is another bureaucracy that we may not need, and it is going to take a lot of money to set it up. But I think the idea should be explored in the next little while.

I guess I am making more comments questions, but you had mentioned 40 pounds of meat, or a certain number of pounds of meat. You can bring, I think, 40 pounds of meat over at any given time. I have known people who have done that. It is either 40 or 42.

**Mr Kukovica:** My understanding is that meat is prohibited because of health regulations, not because of pounds

or the amount of money. It is a question of health regulations. It is the same thing that you are not allowed to bring some fruit products into the country, and I am trying right now to get a list of exactly the fruit products that you are not allowed to bring in. No matter what the price is, it is a question of health regulations; it has nothing to do with the pricing.

**Mr Kwinter:** If I could just interject, it is the food and drug administration. I do not know if you have been to Pearson lately, but about two months ago for the first time, as the stuff was coming off the carousels, there was what I thought was a customs officer with a dog, a bloodhound. He was sniffing around. I thought he was sniffing around for drugs and I thought, "Wow, I've never seen that before." He was wearing a little coat, the dog, and it said, "Department of Agriculture, Canada." I said to the officer, "What are you doing?" He says, "Oh, we're looking for food products, meat products and things that are illegal." So it has nothing to do with the duty; it has to do with food and drug banning certain products.

**Mr Kukovica:** That is my information too, that is exactly what it is.

**The Chair:** Mr Wilson, last question.

**Mr J. Wilson:** I guess what disturbs me about your brief—it has a number of good points, but it is the same thing that disturbs me about the government from time to time—is that both the free trade agreement and the GST are in place. As the provincial PC Party we agreed with one, the FTA, and the GST we did not agree with. But none the less, they are in place. This government spends every day blaming those two factors principally for increases in cross-border shopping and loss of productivity in Canada, and yet I never hear other premiers, other leaders of other provinces, complaining about the free trade agreement, for instance, because they have done things to take advantage of that agreement. In fact, in the first 21 months of the free trade agreement, US imports remained static and the net increase in Canadian exports is \$4 billion. So there is a success story to be told.

But I would argue that in Ontario, because of politics, you have simply continued to blame that agreement for all kinds of things, whether or not it had anything to do with many of the things that it gets blamed for. And when you say that the federal government has no economic strategy, I would argue that the province of Ontario has no economic strategy, or at least none that we can point to.

**Mr Dadamo:** Go back to bed, Jim.

**Mr J. Wilson:** No, I think it is the propagation of myths.

**The Chair:** Excuse me, do you have a question here?

**Mr J. Wilson:** Sure do, Mr Chairman.

**The Chair:** Could we get to it? Because we are already overdue with the next presenter.

**Mr J. Wilson:** Sure, but I think my party deserves a proportionate amount of time, given all the other people here asking questions.

Propagation of myths, I think, hinders my constituents and hinders people who are unemployed. The GST, for instance, because it is in place, you are not going to change



it. The federal government is not going to change its mind on these things. Maybe you want to stress that we should be collecting both PST and GST. You say it would be another bureaucracy. I suggest that if you rolled the provincial sales tax collection system into the collection of the GST you would save more than enough bodies to put them on the border to collect that joint tax and you would save a significant amount of money in the sense that we would not have two sets of auditors and two sets of books kept by businesses.

I would argue that taxes are high. I was in Fort Frances last weekend where municipal and business taxes on the Canadian side of the border are five times higher than right across the border at International Falls. Retail rents, for instance—all these things drive up the shelf price of our goods—are 50% higher; just two examples.

My question, I suppose, is, we are trying to get a figure on the exact extent of the problem of cross-border shopping. Your figures are from John Winter's report, in which he says about \$1 billion in 1991 and about \$2 billion nationally. Have you done any other studies that might give us a better handle on that? I think the problem is far more extensive than that and I think it has a lot to do with taxes in Ontario.

**Mr Kukovica:** No, we have not done any other study than that. It is very difficult, I think, to get any other handle on those figures. Let me respond to two of your comments. First, when you talk about GST, the Angus Reid Group survey that was done in March—if you think the GST has nothing to do with shopping and everything else in the economy—

**Mr J. Wilson:** No, I agree it has. I agree it has a psychological effect on people, but if the myths were not propagated we might be able to get over that.

**Mr Kukovica:** It is not a myth.

**Mr J. Wilson:** And if we collected the PST at the border with the GST, I think that would be a real deterrent.

**Mr Kukovica:** It is not a myth. There was a survey done across Canada in March of this year, 1991. The survey shows that 41% of the people in Atlantic Canada cut their spending because of the GST. The question that was asked was: "How has your household reacted to the new 7% GST? Have you cut back purchases, increased purchases, or other?" In this survey, which was done across Canada, Ontario was the highest where they cut, with 48%. It is real; it is not myths.

The second point I want to make is that right now the federal government, your party, has said that it will hold consultations between the federal level, the provincial and the municipalities. If the labour movement were invited, maybe we would have a very positive dialogue about how to stop the cross-border shopping and come up with some ideas. But the labour movement again was ignored, we are not yet invited to those talks. We hope that we will be.

**Mr J. Wilson:** Great. I just want to make one response to that, on your question of the GST. Let me make it clear. We were not in favour of it either in the Ontario PC Party, but it is in place. When you talk of the "new" GST, it is a myth: It is a replacement tax. Governments across Canada would be helpful—I mean, it is in place,

folks, so why keep hammering away at it? We should stress "new tax," which it is not—it is a replacement tax—and Canadians would be better off if we all understood that.

**The Chair:** I do have an added piece of information the researcher has given me, the Peace Arch Cross-Entry Project Participant's Guide. "Limitations: The following lists the limitations on commodities which are commonly imported. The limits shown are applicable to an individual." This is going out to the people at the border who are enforcing. "Meat, 20 kilograms. Poultry: turkey one whole one; turkey parts, 10 kilograms; chicken, 9 kilograms; fish, 11.3 kilograms. Eggs, two dozen. Dairy products, C\$20." So it looks like meat is allowed.

Thank you very much for your presentation. Ladies and gentlemen, if we could move the talk out into the hall I would like to move on with the next presentation.

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#### ONTARIO CHAMBER OF COMMERCE

**The Chair:** Please come forward. I cannot guarantee anything at this point. If there is a vote in the House, then the bells will ring and we will all have to go. We will do what we can, but thank you very much for coming. I am sorry it is taking a little bit more time.

**Mrs Matthews:** No, that is quite all right. In fact, it will relieve the members of the committee to know that we have a very short presentation to make and, depending on your questions, we may even be able to get you back on schedule.

**The Chair:** It is not a question of schedule. It is a question of what is happening in the House with private members' bills.

**Mrs Matthews:** Yes, I understand that as well, Mr. Chairman.

If I might take a moment and introduce my colleagues and myself to the committee, my name is Linda Matthews. I am chairman of the board of the Ontario Chamber of Commerce. With me today on my left is Mike Cristofaro, member of our economic policy committee, and Elaine Rehor, the assistant general manager of the Ontario Chamber of Commerce.

I would like to take a moment and ensure that the members have an understanding of the Ontario chamber and our membership. We have 165 local chambers of commerce and boards of trade in the province and our combined membership is approximately 65,000 members. We are a very diverse group. We represent not only large businesses but also small owners and medium-size companies, every sector—manufacturing, retailing, financial services—and of course we represent the total province with membership in Thunder Bay and Ottawa, the north, the south, the east, the west. Also, that obviously includes the border communities.

You have already heard from many of our representatives from border chambers and their participation in the Ontario Border Communities Task Force on Cross-Border Shopping, so we do not intend to go over the documentation they supplied to the committee. That would be a waste of your time, but certainly a couple of points I think have been raised: In listening to your last discussion, the reference to the \$1 billion in potential retail sales that could be



t this year, impacting our retailers here in Ontario—and though the gentleman from Windsor is no longer with us, it is a prime example of a border community where in t retailers have had to close shop and there have been ultant job losses in those communities.

We recognize the seriousness of the problem and that it not just a cross-border shopping issue. It is an issue of portance to all of Ontario. Even local members from onto have admitted going across the border. We recog- e, too, that the issue of cross-border shopping is really t a symptom of our larger problem in the province: the ue of competitiveness. The retail sector is on the front e at the moment, but this issue of competitiveness goes our manufacturing sector and other sectors as well and s very long-term serious consequences for all business Ontario.

We are here today to discuss some ideas that the Ontario amber has with respect to short-term and, we hope, nger-term solutions. I would like to ask my colleague m the economic policy committee, Mike Cristofaro, to tline these hopefully constructive solutions to you.

**Mr Cristofaro:** Thank you, Linda. There are a number proposals that have been put forward to alleviate the blem for border retailers. We support those who recom- nd that the GST and PST be harmonized so the PST can collected at the border. It has been suggested that the vvincial government will lose revenues of over \$50 mil- n—I have heard numbers as high as \$100 million—as a ult of its inability to collect PST at the border. Currently, ere is a legal and moral requirement to pay the 8% PST mported goods, but the lack of a collection mechanism giving imported goods an unfair advantage. We believe s could be easily rectified by harmonizing the GST and T. We recommend that there be some negotiations held th the federal government on this issue.

There is also the issue of gasoline. There is a cost ferential between the US and Canada and it has been scribed as a loss leader that brings Ontario shoppers into e US. Much of this cost differential is attributed to the deral and provincial taxes on gasoline. The Ontario Border mmunities Mayors Task Force on Cross-Border Shop- ng has proposed that a series of reduced tax zones be mplemented for gas stations between a zero- and 50- metre distance from the border. It is their contention at a reduction in gasoline tax through a zoning formula ill realize the same level of taxation revenue for both the vvincial and federal governments, while eroding the loss ader status of US gas prices.

Enforcement of laws at the border has also been a cus for discussions. We believe this is appropriate, but e also caution that in doing so it should be remembered at penalizing US shoppers and tourists who wish to visit d shop in Ontario through slow-moving lines and so rth would exacerbate the problems of Ontario retailers. e should also note that the costs of increased enforce- ent through a larger number of inspections should not be rmitted to outweigh their advantages.

Small Business Ontario, a branch of the Ministry of dustry, Trade and Technology, has provided assistance to ntario border communities in the form of a marketing

strategy framework to assist those communities in keeping their shoppers at home and, of equal if not greater impor- tance, to bring back American tourists who have been staying away from Ontario.

In these difficult economic times, price becomes quite important for many people in determining whether they are going to purchase here or in the States. While it is easy to say that Ontarians should shop in Ontario to keep jobs in the province and support the government services we benefit from, that argument must seem very academic to an unemployed worker who can buy gas, milk and bread cheaper in the US. When we look at the extent of cross-border shopping, it does raise the question of whether the cost of our social programs has exceeded our willingness to pay for them. We need a strong tax base to support our social programs and this relationship seems to be out of sync. We need to redress the balance between a viable tax base and the costs of our social programs.

Collecting PST at the border, introducing gasoline tax zones, enforcing our border regulations and improving the marketing of our communities should all have a beneficial effect for border retailers and government revenues. They are, however, surface solutions and do not address fundamental competitiveness issues in the province.

I would like to talk about some of the long-term solu- tions. The question that needs to be addressed is: What does Ontario need to do to be competitive? The answer to this question lies with business, labour and government and is in our view the single most important issue facing Ontario. We urge that the mandate and membership of the Premier's Council be expanded and that it address this issue as a top priority.

If a partnership is established to focus on competitive- ness, the Ontario government might consider its role in the competitiveness or non-competitiveness of Ontario's goods and services. High levels of provincial personal in- come tax leave fewer dollars in the hands of consumers and contribute to making price for many the top criterion in a purchasing decision.

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The PST at 8% is two percentage points higher than the New York sales tax and again gives the US retailer an edge. In an Ernst & Young study of cross-border shopping for the Sault Ste Marie Chamber of Commerce, 82% of respondents believed US prices were better.

Direct and indirect taxes on business also have their impact. Corporate taxes, fuel taxes, pay equity, workers' compensation, hours of work and pensions are all costs of business that flow through to the consumer in the form of higher prices for goods and services. This is not to say that any one of these initiatives is wrong, but they are costly in themselves and have a major impact on a cumulative basis. The Fair Tax Commission as it undertakes its study of taxation in Ontario should bear this in mind.

The question then asked is: If government revenues are decreased to make our products more competitive, how do we pay for the services we enjoy and do not want to give up? First, in a growing healthy economy, there would be less call on these services, and second, many inefficiencies can be found in the delivery of these services, particularly



in the area of duplication of government services. One example here would be the duplicated collection system for GST and PST. A further example would be the need to concentrate our health care resources more on prevention and less on cure.

Business needs to re-examine its contribution to competitiveness as well, to improve both quality and cost to the consumer. Labour too needs to evaluate its role in competitiveness. We all need to work to accelerate positive change in the province.

In order for partnerships to work we must all stop seeking a bigger share of a shrinking pie before only crumbs are left to pick at. The cross-border shopping crisis will have served us well if it can be used as a springboard from which a new partnership can be launched with a healthy economy as its target.

**Mrs Matthews:** That ends our formal comments. I am sure there will be a multitude of questions on our presentation.

**Mr Sutherland:** First of all, just one point of information. You mentioned on page 4 the expansion of the mandate and membership of the Premier's Council. There are several Premier's councils; which one were you referring to?

**Mrs Matthews:** It would be the Premier's Council on the Economy and Quality of Life. I think they have a three-volume report currently.

**Mr Sutherland:** Okay. Thank you. You talked about the issue of competitiveness and the impact on retailers and how we all need to do a better job. I believe one of the surveys done by Mr Winter noted that people felt they were getting better service in the United States in some of the stores. He also thought there were friendlier people in the States, but I seem to be the only one surprised by that.

Do you have any numbers in terms of how much retailers are spending on staff training, that type of thing, product knowledge? I worked in the retail sector in a grocery store for seven years and was always concerned about how we hired people and just threw them in there without any training, or just assumed that they knew how to treat people and how to solve problems that may have come up and how to deal with consumer complaints. I am just wondering, from a retailer's standpoint, whether there is any dollar figure or any surveys you have made of your membership to get a percentage figure that they spend on that area.

**Mrs Matthews:** Specifically, Mr Sutherland, we do not have a dollar figure. A number of our members, through local chambers, have been involved in co-operative training ventures with the community colleges in order to give their staff that training edge and relate to tourism in particular, but a specific dollar figure or time figure I do not have.

**Mrs Sullivan:** I too am very interested in your comments relating to the Premier's Council. I think yours is the first organization that has suggested that the Premier's Council move from discussion of technological competitiveness on the international scene to the goods and services area.

In that area, would you see the Premier's Council looking at, for instance, the identification of new marketing trends, niche marketing or the identification of international

trends, for example, in retailing and in marketing generally where Ontario retailers can in fact be in the forefront rather than behind international trends? I think that in the past we have seen, for example, the warehouse operation, such as the Price Club, starting somewhere else, or the combination retail outlet-manufacturing operation, such as Ikea or Habitat, starting elsewhere. Do you see a role for the Premier's Council in those kinds of marketing focus studies, or would you see the Premier's Council attacking this?

Second, yours is not the first group to talk about gas tax and its variegated implementation based on distance from the border. That is done in Quebec with a very different kind of community, in terms of population concentration and so on, moving away from the border. One of the things I see as a problem here is that, for example, Thunder Bay identifies itself as a border community yet is 200 miles away from the border. In my community which includes Oakville, Burlington and Milton, retailers are certainly affected, in their view, by cross-border shopping. Metropolitan Toronto is clearly adding more to the market. How do you define levels of distance from the border that do not include the entire province?

**Mr Cristofaro:** Let me answer the question on gasoline. The speaker before us addressed that. He is from Quebec so am I. There are in Quebec these gradual tax zones. The system was set up so that it would not be advantageous if you are a resident of Oakville, for example, to drive down to Buffalo to gas up because, no matter what the price was, it would cost you more to get there and back than the savings you are going to achieve at the gas pump.

So you have a system in place that does it gradually whereby if you save \$3 by going from zone A to the United States, you would give a credit to those retailers that would enable them to compete with the US.

**Mrs Sullivan:** Could I just interrupt for a second? The other problem then becomes: What happens in the local market when the guy from Mississauga comes to Oakville? The gas service stations in Mississauga are affected by the kind of fuel tax reduction in a community right next door within the same province. You cannot stop people from Mississauga.

**Mr Cristofaro:** But, Mrs Sullivan, if you do it gradually whereby you have a price that, next door to the border is 45 cents a litre and then you have got 46, 47, 48, it will not be advantageous for you to travel the extra 10 miles just to gas up and save one cent. I grant you, you cannot have a perfect system in place, but you can get a system that is a lot better than we have right now.

**Mrs Matthews:** On your earlier question, certainly there would be support for that kind of activity. Out of the original councils came a number of reports and studies talking about a need to restructure core businesses. I do not think I would limit the council to the two or three that you have suggested. Certainly there is a multitude of competitive issues that the council would have to address. Really what we are supporting is the need for business, labour and government co-operation in order to find those solutions for all of Ontario.



**Mr Jamison:** I notice that you broached the subject of PST and the GST, and you have said it would be advantageous for business to have those taxes combined. Obviously you understand that this government chose not to raise taxes by doing that, because there is an increase about one half a per cent once you do that, and by doing has left \$500 million in the pockets of the consumers of province.

**But I am having some difficulty in understanding—on the one hand you are talking about various tax levels and then you are suggesting a measure that would in fact increase taxes collected by approximately half a per cent again.**

**Mrs Matthews:** If it was harmonized, sir, and you are collecting the 15% to begin with—the reason you are saving \$500 million is because you did not stack it, not because it is not harmonized.

**Mr Jamison:** We are not saving \$500 million; the consumer is.

**Mrs Matthews:** But it is a different issue.

**Mr Jamison:** Yes.

**Mrs Matthews:** One was charging 7% on top of 8%, and that is where the additional money came in. The other put them together and charge 15% once.

**Mr Jamison:** What exactly is the chamber doing province-wide at this point to react to this particular situation? I ask that for this particular reason: so that we in government can understand where we can co-ordinate our efforts, because I believe the previous group was very correct in saying that this is an issue that various groups cannot deal with effectively in isolation. I would be very interested to hear what you have been doing to this point.

**Mrs Matthews:** We have made presentations at the provincial level, and our Canadian chamber colleagues have made presentations at the federal level, with respect to harmonization, because the other thing that impacts the business community on that particular issue is duplication, the bureaucracy and the paperwork and the complications for the small retailer to have to collect two taxes; so there is the workload impact as well as the revenue side of it. We have made presentations at both the provincial and the federal levels, encouraging both levels of government to come back to the table and to harmonize those taxes into one.

**Mr Jamison:** But my understanding is that where in effect the provinces have done that, it has really not solved the problem. There is no collection of GST at either of those provinces' border crossings.

**Mrs Matthews:** I think that is an addendum to the discussions. First you have to harmonize and then you have to agree on the collection.

**Mr Jamison:** But they have. They have, and those taxes, to my knowledge, are not being collected at the border crossings.

**Interjection.**

**Mrs Matthews:** Yes, I was going to say, if they are collecting the federal tax they would automatically be

collecting the provincial tax, through the harmonization, not previously.

**Mr Jamison:** Is that happening in Quebec and in Saskatchewan? It is not happening at this point, to my understanding.

**Mrs Matthews:** My understanding is that it would be part of the process, but I do not have a piece of paper that says that.

**Mr Kwinter:** I would like to make an observation and then just ask a question. On this gas thing and the various zones that are in effect in Quebec, there is even some question whether they are working there, but the reason they do not have a hope of working there is that there are no great population centres right at the border of Quebec and the United States which have any real impact on the economy. You have to travel quite a distance, so there is nobody who would be travelling to the border to save on gasoline because, as it was suggested, it would take too long to get there in Quebec. So what they are really saying is that if you are coming from Montreal and you are crossing at Burlington, Vermont or Plattsburg, New York—wherever it is—you have got to travel 70, 80 miles to get there, or whatever it is; but before you get to the border, if they have these zones, they will let you buy some gas so you do not have to fill up in the US and the money stays here.

But in Ontario, we have many major population centres that are within easy driving distance. If they are not within easy driving distance to the United States, they would be within very easy driving distance to where these zones are, so you would have a system that I do not think could work because of that. We are just too close to the border and we have got too much population that close to the border.

The thing that I really wanted to ask about is that I see all of your recommendations—and I agree with most, if not all, of them—as being long-term restructuring of the way we do business. I do not see it happening tomorrow; I do not see it happening next year; I do not see it happening for maybe five or ten, if it happens at all, whereas, we are talking now about a retailing problem. The other things affect our competitiveness in world trade; they affect our competitiveness in attracting investment, but what we are talking about basically is a retailers' problem, which eventually impacts all the way down the line, because it then impacts on the manufacturers and on the service sector. But right today, what you have is a shopper who, even in Toronto, sees a purchase and says, "I can go over to Buffalo and buy it, pay the duty and everything else, and still save a lot of money." How do you address that? In the short term, what are your solutions?

**Mrs Matthews:** I guess, Mr Kwinter, in the short term we make four proposals: harmonization of PST and GST to take away that cost advantage in going south, because you are going to pay the extra tax when you—

**Mr Kwinter:** Could I just ask you a question about that? Right now, there is no question that, given the economies of scale, there is a cost advantage on many items in the United States. With the dollar today at 87—

**Mrs Matthews:** Just under 87 cents.

**Mr Kwinter:** Okay, it is around 87 cents. When you combine the PST and the GST you have 15%, which just about makes it neutral. In other words, any advantage or disadvantage of having to pay the PST and the GST is more than offset by the value of the dollar. So what I am saying is that, even if you do that, you still have to address the basic problem of economies of scale, efficiency of distribution, and all those things. There is no question that all these things you are suggesting are going to help, but are they going to be enough to change the pattern?

**Mrs Matthews:** I think, Mr Kwinter, that is probably why we characterize them as short-term solutions. We would not disagree with your analysis of gas zones and problems that there may be in implementation. I think it is the problem of what you can do in the short term for business people and communities that are really hurting in these border areas. I think they need the long-term solution, but many of them are not going to be around when we find the solution, unless we can have some short-term assistance for them. Gas zones have enormous problems in their application. It may just move the problem to Burlington or Oakville, but it will offer some help and short-term assistance to people who really are on the edge in terms of the viability of their businesses.

It is very hard to suggest that, although this is a retailers' problem at the moment, it is the inputs as well as their own practices, and the responses of citizens in hard times who want to find the lowest price, that are really combining to make it a retailers' problem, and we are viewing it that way. But until we look at the whole production-distribution system, we really cannot give the retailers a long-term answer.

**Ms Harrington:** I sat on our chamber of commerce in Niagara Falls for a couple of years, and I would like to tell you I am very impressed with the amount of interest they have in so many issues, provincial issues and local issues. They are really, genuinely concerned about the community.

I wanted to tell you what some of the merchants told me last weekend, that when the difference in filling up your gasoline tank is only \$5, as opposed to \$10, people will think twice about going across the border; people who are busy, who do not feel that it is that much of an advantage. So I am thinking that would be good to consider, because once you get over there, you are tempted to look around at the other things, and you leave your money over there.

I arranged a meeting between our local chamber of commerce representative and Premier Rae at the beginning of March; we proposed this issue to him and we had a fairly full discussion. Our local chamber is involved with the "Shop Ontario" campaign, which is trying to do some marketing about what is competitive and a good buy in our local area.

It is difficult for them, I admit, and the thing that I have found, after speaking with them, is that some of the merchants lack interest in fully participating in this aggressive type of marketing campaign, and really getting involved in this issue instead of just sitting back and saying, "Well, we can blame everybody, the federal government and X, Y

and Z." They should be saying, "What can we do, personally to educate"—of course, they do not like pointing the finger at consumers and saying, "You should not be going across the border." That is not what they want to do, that is what we want to do, but we do want to have some more positive way of dealing with it. Promotional; your organization at a provincial level, is there any way you can suggest local, small merchants more involved with promotional

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**Mrs Matthews:** That is a tough one. I would hope those merchants are members of their local chamber of commerce as well. I made reference to one of the co-operative training ventures with local chambers and community colleges. Obviously it is a difficult problem. I am not sure that you can force them to do anything other than pointing to their best interests. So I am not sure I have an answer to that one, Ms Harrington.

**Ms Harrington:** You mentioned having the government and the unions, I think it was, as well as—

**Mrs Matthews:** Business, labour, government, working together, yes.

**Ms Harrington:** —working together. I certainly agree with that. I am saying that before we can really do a lot, we need to have it come from the merchants, the small business people, from the grass roots, so that we can work together.

**Mrs Matthews:** I thought that is what you were hearing at these hearings, especially with the border communities and chambers of commerce making presentations. I think the willingness is there.

**Mr J. Wilson:** Just a preamble: perhaps I did not make myself clear in my last comments when I talked about taxation. I note that the Ontario Chamber of Commerce points that out as one of the primary problems.

You indicated to me off the record, Mr Chairman, that the Canadian Federation of Independent Business had presented contrary evidence, and Mr Sutherland agreed with you. I can only suggest that you re-read this. It has the point in spades that Ontario's competitiveness is one of the primary reasons—in fact, in conclusion, that is what the deal with and the charts indicate—

**The Chair:** Your comment was International Falls compared to Fort Frances; the closest comparison that document deals with is Duluth with Thunder Bay, and the chart clearly indicates that the tax differential in Thunder Bay to—

**Mr J. Wilson:** Is less.

**The Chair:** —is around 15%, and at one point, think, as high as 21%, but your comments ran to three to five times the amount.

**Mr J. Wilson:** I apologize if that was your specific comment. We agree there is a significant tax differential. Whether that ranges from 10% in the case of Thunder Bay versus Duluth—it is significantly higher, as much as, I think 40%, I was just reading, between Toronto and Buffalo—my argument is, strictly from my experience last weekend in Fort Frances, that you might find examples there if the study were to be done by the government or otherwise, or



er 50% differential based on the taxes paid on the Fort  
nces side, versus the International Falls side.

Just a simple question, obviously. We agree; we have  
ver met before, but we have come to independent con-  
sions that taxes are a major part of the long-term problem.  
e solution that this government has put forward has  
en to defer many of these matters to the Fair Tax Com-  
ssion. I am just wondering whether your organization  
d the people you represent, the small businesses in On-  
io, the people who actually create the jobs in our com-  
unities, can wait for the report of the Fair Tax  
mmission and subsequent action it may take. It may be  
ee years, and I would argue that many, many businesses  
not afford to wait until that commission comes forward  
th recommendations. Any comment on that?

**Mrs Matthews:** We agree, Mr Wilson. I guess we  
came in today with hopeful suggestions on the short-term  
basis, things that could help until the longer-term solutions  
are found. We know businesses cannot wait two or three  
years for anything to happen. They need something in the  
short term and then working towards longer-term solutions.

**The Chair:** I would like to thank you for your presen-  
tation. Those are the bells that I was warning you about.

**Mrs Matthews:** Yes. That was very good timing, sir.

**The Chair:** Thank you.

The committee recessed at 1155.

## AFTERNOON SITTING

The committee resumed at 1552.

**The Chair:** I call the committee to order. We got a little hung up and started late, but that should not interrupt the time we have to hear your presentation.

CANADIAN COUNCIL  
OF GROCERY DISTRIBUTORS

**The Chair:** We have the Canadian Council of Grocery Distributors. Perhaps the spokesperson will introduce those present.

**Mr Carter:** Before I begin, I will ask you if it is all right to make a short presentation of our brief and then our contingent is happy to discuss the issue and answer questions wherever that is useful.

**The Chair:** That is good.

**Mr Carter:** Thank you. Let me introduce my associates. Kevin Ryan is vice-president, store operations, of National Grocers/Loblaws, which includes Zehr's and sells to Mr Grocer, which is a franchise operation. Jonathon Wolfe is president and chief operating officer of the Oshawa Group. In this area you may know some of its stores: it operates under the name of Food City, a little further away is Dutch Boy, and it wholesales to the IGA group in this part of Ontario. Bob Winstanley is director of public affairs of A&P, Dominion and Miracle Food Mart. I am Tim Carter and I am with the Canadian Council of Grocery Distributors.

We have a submission which we would like to put before the committee and I gave copies to the clerk. With your indulgence, I would like to briefly refer to it, starting at the first page.

Let me first of all say that we appreciate very much having the opportunity to come before this committee, because this issue is of major importance to food distributors in the province. Some years ago when it started, to us it was important, but since then the sales loss and financial drainage have accelerated to the point where we put this issue at the top of our list of items that are important to us for discussion with government.

Our document is divided into seven sections. We have listed those at the bottom of page 1, and I would like to refer to them briefly now.

The association, which we call grocery council, is a trade association representing food wholesalers and retailers. This is a national trade association. Within the membership we have food distributors that do over 80% of the country's business. In Ontario that percentage is about the same. I might say that the members in Ontario operate stores right across the province with staff that exceeds 80,000 employees. This is the major trade association for food distribution, which is wholesale and retail.

Maybe I could start with the size of the financial loss that we attribute to cross-border shopping. You have probably had a number of estimates placed before you. We would like to deal specifically with food.

Food retailers, individual grocers, will estimate their sales loss and gain from various competitors. It is hard to pull together these numbers on an individual trading area

basis. What we tried to do is give you more of a m look at the province overall. On 4 April you had be you John Winter and Associates, who estimated that in year there would be a loss from Ontario of about \$1 bil in sales to US retailers. My look at these figures concl that about one quarter of that, or about \$5 million week, would be the food retail loss.

Translating that into jobs is particularly suitable f food retailing exercise, because food retailers guide t operations by sales per labour hour, very closely. Labou 60% of the cost of running a food store, so they are q meticulous in measuring the sales per labour hour. W we apply that to the sales loss, we come up with a figur the neighbourhood of 1,700 jobs lost in the food retail sector from that sales loss of about \$5 million per we This is both part- and full-time employees.

That is just food retail. We believe the worst poin which an economy can lose jobs is at the retail level, cause at this point when you lose a sale you lose it all way back through the system. A retailer losing a sale to United States does not buy subsequently from the ma factorer, who does not buy from the farmer for the r material, who does not buy from the package manufactu and so forth. So the whole chain or all the levels wit food distribution lose.

This then means that the 1,700 jobs you lose at re are compounded by whatever you lose further back in system. Moving over to page 4, we have made no estim for what you lose in the food system beyond retail. V notice that the representatives who appeared before committee this morning did so. We have no argument w their figures, but it shows that there is a loss through whole system.

One thing we have not done as well, which you m want to look at, is the job loss in the non-food section. V have just looked at food. Of course, when you lose ret sales in clothing, appliances, liquor and all those other plac you are going to have a job loss at retail that is followed with a job loss further back in the distribution chain.

We have concluded that the aggregate loss to the provin in jobs and sales is of alarming proportions. We have al concluded that it is going up, and going up steeply. V look at the figures presented by the government showin the same-day trips. They have gone up for the last thr years at the rate of 20% to 25% per year. We think o sales losses are going up at the same rate, so it is growing

One of the things I probably should add, Mr Chairma is that we have noticed that the retail industry and som other industries are coming forth and talking to you. B when the retail industry adjusts, because it is losing sale seriously, and the stores either close or downsize, the nois will drop down. At that time, whether it is one, two, fiv however many years that is, that will suggest th haemorrhaging has stopped, but it will not have stopper because you will still be losing the sales from the manufac turing sector, from the farming sector. That will go on, eve though the sound and the racket the retailers are makin



rently may die down. That is an important point for people public policy to see, that it is a total economy problem.

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On page 5, we talk a little about the causes. We believe the cause of the shopping migration to the United States is given by lower prices primarily. This is particularly due to the fact that over the past little while we have been in recession. Our own research shows that Canadian shoppers are particularly sensitized to low prices, and they have shown no reluctance at shifting brands, shifting stores, and shifting countries.

US retailers, targeting the Ontario market, are using specific tactics to attract Ontario shoppers. I have brought some flyers with us that you have probably seen—maybe they have even been delivered to your homes—that show the kinds of features they are offering to Ontario shoppers. At times, they are things the Ontario retailer cannot match. Here is one that is interesting. That is beer, Molson sold in a supermarket, sold in New York state at half the price you would pay for it in a store here. We cannot even sell beer, let alone our own beer. They are dropping those prices in southern Ontario. Here are eggs at 28 cents. Supermarkets cannot buy eggs here for their own sale at 28 cents.

They put in maps, as you can see, on how to cross the border and get to the supermarkets. They offer Canadian credit card service and, of course, they are open seven days a week. They go after us in ways that are very hard for Canadians to match.

They have done so in ways that are not just found in the flyers in Ontario. They have changed their stores. We see a lot of stores opening in the neighbouring states which are dependent upon attracting Ontario shoppers. We do see licence plate counts in the parking lots of US supermarkets and we know that a major proportion of their shoppers are from Ontario, so they have a dependency upon Ontario shoppers. We put in the results of one bit of research on page 6.

We look at pricing comparison, because pricing is the major attraction. You have probably had a number of studies presented to you on pricing differences. We have received a number of them and would be pleased to comment during the question period, if you want to ask us about the pricing level differences we observed.

I am on page 7, talking about the reasons we believe the pricing levels are different between Canada and the United States. We know the obvious ones, including the size of the country and the climatic conditions. We have a smaller population base, which damages the economies of scale. We also have large differences that increase the cost of freighting around the country. The northern location of the country puts a premium on single-crop production, and the hazards of crop damage in that kind of situation.

You probably can get, if you like, testimony from the manufacturing sector about these areas, which they are better equipped to talk about than we. They could also talk about the rate of profitability between Canada and the United States. We can simply mention to you that the retail level profitability in Canada is less than it is in the United States. In the US it is 0.86%, which is less than 1% on the dollar. In Canada it is 0.57%, which is half of 1% on the dollar or of one cent on the dollar. Even if we were the

same level, it would not account for the huge price differences. We are dealing with less than a cent on the dollar.

One of the things we would like to talk about this morning is the role of government in the price differences, and to tell you about some of the answers which retailers operating in border areas have given to their trade association. For today and other presentations we have asked them to comment on these things, and they have suggested that one of the factors contributing to the differences are the costs of government, both direct and indirect, in affecting pricing levels.

At the federal level, I would like to simply mention the difference in the input costs of some items. Those items are the industries regulated by supply management marketing boards. We see the biggest price gaps between Canada and the United States in those items: turkey, chicken, eggs, dairy items. This, to a large degree, we think, is because of the difference between Canada and the United States in the way the producers are subsidized. We tend to do it through the pricing mechanism as well as the production, which pushes up prices. The United States does it through the Treasury, which is a different form, so that at the border it makes the gap that much greater.

**The Chair:** Is that how they can put eggs on the market at 28 cents a dozen?

**Mr Carter:** We think so.

**The Chair:** Is that a loss leader?

**Mr Carter:** That suggests the retail loss leader. What we are talking about here is the government approach to helping the farming community. It is very different between Canada and the United States. Here, egg production is controlled in quantity and price. There is a cost of production formula that allows farmers to be subsidized through the pricing mechanism, which goes right through to the consumer, so it pushes up the price of eggs in Canada, as opposed to having the taxpayer do it heavily here, as is the case in the United States.

**The Chair:** Do you have any comparative analysis of how much the federal Treasury in the United States puts into its subsidies at the other end, which would then give you an idea of what the real price of their egg production is?

**Mr Carter:** Sure. I do not have them with me, but let me tell you where I think they are easy to come by. In the recent round of GATT negotiations, every country had to put in its method and its quantity of subsidizing the agricultural sector, so these figures are available. You would go to the sectoral advisory group on international trade; it is the Department of External Affairs.

We are working with Agriculture Canada on the subject of the federal government's approach to a second generation of marketing boards. It is a subject which does concern us and does push up the price gap.

At the provincial level, there are areas which we think cost us, and we would like to mention those. Some of them are direct and some are more indirect. On the direct side, we have those which relate to labour costs, such as pay equity and minimum wage differences and workers' compensation, to mention a few just as illustrations.



On the marketing restriction part, we have noticed that US retailers are quick to exploit advantages which they enjoy. We mentioned the flyers and the credit cards, and the beer and wine. We did not mention Sunday shopping. This is an obvious advantage and one we would like to mention. There are others, which I have referred to on page 10, and we can get into them at question period if that is of interest.

Moving over to the conclusion on page 11, we would like to simply mention that we think the loss in cross-border sales is symptomatic of the larger issue, which is the competitiveness of Canadian or Ontario industry in facing international competition. The fact that the retailers are losing business to the United States we do not think has been influenced by the free trade deal at the retail level, but as trade liberalization continues through that deal, certainly other sectors of our industry are going to face, increasingly, international competition, and they will need to look towards being competitive. This is our supply community.

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We do not believe sealing the borders is the answer. We think what we need to do is look at operational disparities and move towards correcting them. This is within our own operations as well as the government aspect of public policy.

We think the starting point is for the government to recognize its role in affecting the outcome of the economic struggle and the regulatory burden which it places on local industry. We think this should be viewed alongside the regulatory burden which is placed on competitive industries. In our case, it is food retailers operating across the border. In the supply industry, it is either that which is placed on companies that sell into Ontario or in the markets to which Ontario companies wish to export.

We think the public sector or government is very much a part of our competitive team and we would like to work together to preserve markets, as we know that it is through our joint work that we will be successful, ultimately, in the competitive struggle.

Our first recommendation, on page 13, is to suggest that the government accept its role as part of our competitive unit and do an assessment in much the same way as we know they do at the federal level on new bits of regulations. They look at it in socioeconomic impact studies. We notice them as well on the assessment of environmental factors.

What we would suggest happening, in advance of implementation of legislation or regulation planned, is that it be assessed in terms of the competitiveness of Ontario industry. A benchmark study would be useful to look right now at the competitiveness and the regulatory burden that we and other parts of the economy face, as a benchmark, and we would be pleased to co-operate if that would be useful.

The federal government, on Monday 22 April, will be announcing a benchmark study which we suggested it do. It will not be on food, but they will be announcing it in Niagara Falls. In that city, there will be a meeting of about 20 industrial groups on the subject of cross-border shopping. If the committee wanted to send a representative, I would think that would be very welcome. There will be a number of papers presented, one by Industry, Science and Technology on a study it is doing on the regulatory burden.

However, they have said that budgetary restrictions preclude their doing more work in this area, so I think encouragement which the province could give them to back into it would be most worth while.

The federal government has released a document on customs and excise dealing with Customs 2000 and approach to running inspection points at border crossings. It is concentrating on facilitating traffic flow. We were before the minister suggesting to him that the emphasis should be on preserving the integrity of the border. I thought they were going in a direction that was fine, they should place their emphasis primarily on looking at their primary role, maintaining the rules of importation. We would like to make sure they do not swerve on that and I think any help we could get from the province would be appreciated.

They are also looking at a fast-track proposal to have one lane at border points available for frequent travellers. At these points, these travellers would voluntarily mail out forms and get billed for their duties by mail. This would allow them to go across the border more quickly.

We suggested at the time that they do a proper study, this involving the retail industry so that we could put pre- and post-figures to assess the impact on cross-border shopping. We do not think this idea has been taken on board and any help you can give us in that would be very worth while.

It is important, before they expand this notion across the country, to understand the impact. We do not think it is going to be a good one on sales and it should be looked at carefully.

Our last recommendation, on page 17, deals with collection at the border. We think it reasonable that provincial sales tax be collected when the GST is being collected there. We think an agreement between the province and the federal government is a good idea. Of course, I could not say that without advocating, as retailers, that the two tax systems be harmonized. It certainly would help our operation, as it would the collection at border points.

That is the substance of our presentation. Thank you for letting us present it. We stand ready to answer questions.

**Mr Kwinter:** Mr Chairman, am I restricted to one question? Okay, I have one question with several parts that all related to the main question.

**The Chair:** You guys do that all the time any way. Why do you even ask?

**Mr Kwinter:** Number one, do you have any figures to those who cross-border shop, what percentage of their shopping is done in grocery products?

**Mr Carter:** I have some figures that are limited. One of the things we know is that people change their buying according to the distance from the border, among other things. So people who live right in the same town where the border is may do more incidental shopping like food, whereas people who live in Toronto may do less food and more appliances and clothing and some of the big-ticket items. So it will change. We have one modest study, at least I do; maybe my friends have other ones. In France the proportion was quite high, but it does change



We have, as you will notice in our brief, taken a position alongside Mr Winter's study of about 25%.

**The Chair:** This is part B, I guess?

**Interjection:** Port customs, Mr Chair.

**Mr Kwinter:** Part B, yes. I would assume that, given size certainly of the representatives here, from a buying capacity, you would have the ability to buy as well as, say, ps. I am talking about certainly the members sitting here. I would think that A&P and Miracle, or the Oshawa group or Loblaw's would certainly be in a position to buy well. Is that a fair assumption?

**Mr Carter:** I would think so.

**Mr Kwinter:** I am not talking about items that are controlled by market suppliers or supply management. The point I am trying to get at is that if a box of Kellogg's Corn flakes is being sold in the United States and in Canada, what are the factors that would make it more expensive in Canada than it would in the United States?

**Mr Carter:** You first of all have the cost at which the wholesaler has to buy it. Kellogg's probably will not sell it at the same price in Canada as it will in the United States. They have a whole lot of different regulations to live with, they have different costs, they produce it in Canada so their economies of scale in their production are going to be different. Their distribution costs are going to be different, the price to the wholesaler will be different.

Kellogg's is probably the best one to give you the reasons for its difference in pricing levels. We know, from talking to the suppliers, that those who have a high component of supply-management products as part of their costs are having difficulty facing at the process level the imported products. Kellogg's has grains in it. That is not one where there is a great difference, but certainly for milk there would be and some of the other products. Maybe my friends would like to get in to comment. You might want to call Kellogg's.

**The Chair:** My understanding is that for Kellogg's, the actual content of the box is seven cents.

**Mr Carter:** The actual content difference is seven cents.

**The Chair:** No, no. That is what it costs.

**Mr Carter:** That is how much weight is in there.

**Mr Winstanley:** I believe that figure was mentioned without any scientific background at all, as well. That is just something somebody threw out on an estimate.

**The Chair:** Do you have a better number?

**Mr Winstanley:** I quite concur with Mr Carter. I think you could get in touch with Kellogg's. They could probably give you a better answer.

**Mr Kwinter:** What I am trying to arrive at is that we have heard ever since we have had these hearings, "How come, when a product that is sold in the United States and an identical product is sold here, there is such a disparity in the price?" All I am trying to do is to get confirmation from the major retailers as to exactly the point you have made. So, obviously, you are not buying even though you have the buying power that would be comparable to a Tops

or even more, you still cannot buy as cheaply as they can at your level, at the product purchase level.

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**Mr Carter:** I do not think it has a lot to do with buying power because they are in a completely different market. Within that market, they will be buying whatever the rules are within that market.

**Mr Winstanley:** Tim, perhaps the answer is more closely that we would buy Kellogg's Corn Flakes from Kellogg's, which is in London, Ontario. Tops, which is part of Topco, which is an enormous operation, buys from Kellogg's in Battle Creek, Michigan. So it is really apples and apples. Although the package looks close to the same, we are not buying from the same sources at all. That is why I suggest to Mr Chairman that he is best to get that representative answer. We are buying for two separate issues here.

**The Chair:** You also have a second problem here that maybe makes the Kellogg's Corn Flakes from Ontario more expensive than in Michigan. I brought information to the committee just last week that one of the representatives in my riding, who is a branch plant of a multinational, is told that they cannot compete with the parent company in the United States in terms of pricing and putting a product into the market.

Free trade was supposed to give us the chance for economies of scale, which I think a lot of people assumed meant that all the companies in Canada would be able to compete with whatever is going on in the United States. That, in this one instance that I can certify as being accurate, does not seem to be the case. I am wondering if that might also translate into other costs.

**Mr Winstanley:** That could be, Mr Chair. However, it is all anecdotal. The issue we are trying to get across in our presentation is that the price we are paying and we are vending it at is enough that it allows us, based on our cost containment, a lesser margin by about 60% than the US is able to make.

**The Chair:** I think that is something that we as a committee have to understand and get to the roots of: why the prices are higher and why the prices are different.

**Mr Carter:** I think that is a very useful exercise and you might do it on a number of commodities. The ones that have the biggest gap are the ones we mentioned, such as turkey, chicken, eggs and dairy, and they are all over 50%. The ones that are a lot more similar deal with things like pork and beef and some of the grains. The condiments, where you have a lot of American manufacturers that are in both countries, you will find the difference is quite high. We will be happy to give your research staff what we know at the retail level, but we are only at the retail and wholesale levels. As you work your way through it, the retail component, as you can see, is less profitable here than it is in the United States.

**The Chair:** I think those numbers would be very interesting for the committee to see. If you could send them along, we would appreciate that.



**Mr Kwinter:** I am still on point C, or maybe D. It is my understanding, and I may be wrong, but I heard somewhere when I was a minister that the number one product in volume that is sold in a supermarket is soft drinks. But the number one sort of attraction, the one that people are most price-sensitive to, is milk. Is that something you would agree with? If you do not, then there is no sense in my pursuing the question. I was just wondering, do you as merchandisers find that?

**Mr Carter:** I would ask my friends to comment on whether soft drinks are the largest one, but I can tell you that the ratio of sales of milk to the total company store in border towns is half what it is in non-border towns, which suggests to us that Canadians who live in border towns buy as much milk in the United States as they do at home.

**Mr J. Wilson:** But they buy a lot of everything else too.

**Mr Winstanley:** Yes, once they purchase milk. By the way, that same analysis was presented last May in Halifax by David Sobey, who had the study of his stores in New Brunswick that were near the border. I believe that is probably where you got the numbers as well as the numbers here in Ontario. The situation is identical there. But milk, I think you are probably right, sitting here with my competitors, is probably the driver. I do not think there is any question about it. It is consumed daily. You know, it is a fairly simple equation: If you want to drive business, find something that is consumed daily.

**Mr Kwinter:** The whole purpose of my question is that maybe we have been hearing about the wrong thing to address. Maybe instead of worrying about the price of gasoline we should be addressing the price of milk, if that is the number one driver as opposed to the price of gasoline.

**Mr Carter:** I think what we understand is that when people go to the United States they do not just buy one item. They buy a basket and it will have gasoline in it or beer and some food items and milk. It is the totality of it. I would think milk would be a good one to chase down. You might want to find out what is in that basket and the item that is most frequently there per transaction is one that certainly is a driving force. I think it would be a very worthwhile thing to draw statistics on.

**Mr Sutherland:** Speaking of that issue, food, and talking about baskets, one of the presentations said their group did an analysis in Niagara Falls, one of the studies down there. When they looked at a basket of groceries on both sides they found that the differential was not that much. I am wondering whether you feel that in some cases, maybe even in your industry, we are possibly not selling properly, we are not retailing-marketing properly, if there is evidence to suggest that, and that in some ways their part of the thing is that yes, on items like milk there is the big saving, but that overall the savings are not as great as people are led to believe and that we are being out-marketed or outadvertised.

**Mr Carter:** I do not accept the fact that the savings are not great. Some items are an awful lot higher. We just talked about the ones that are and they are over 50% higher, so it is worth your time, if you are going down to the States, to buy those alone on a per-hour basis. You can

justify that because gasoline is so much cheaper that considered free. If you buy a basket, of course you negate some of that value, but you do not have to do. People go down there. We learned about milk. They hitting milk. They do not have to buy the full range what they are doing. If you ate nothing but grains, pasta, and you ate pork and a little bit of beef, it probably would not be worth while, in what we see, going to States. That is not what they are doing. They are hitting items where they can make a huge saving and make worth while.

Let me shut up and ask my friends if they want to anything.

**Mr Ryan:** I have read the concern that we may outmarketed, but I do not believe that, based certainly our experience. We have a representative from A&P who does business on both sides of the border. I do believe that would be the case at all. Loblaw's does business on both sides of the border. If you went down Louisiana or St Louis and you were to see the National Co stores, you would see stores down there that look very much like Loblaw's stores. We export the technology or store design to that market.

Our corporate brand program is exported to that market philosophically. I am not talking about products, I am talking about the philosophical approach. In our particular case we have put large supermarkets into border communities. Windsor, we put in two large supermarkets recently. Sarnia, we put in large supermarkets, the 100,000-120,000-square-foot variety, large units, well staffed, well stocked. To presume we are being outmarketed, if that were a thought, I do not believe that is the case. I believe people who work in our stores and the marketers in Ontario are as good as any place in North America.

**Mr Sutherland:** I have two other questions. One I want to talk about the issue of training and development of staff. We heard from Mr Winter that in a couple of surveys people found they were getting better service, one of the reasons, not the principal reason but one of them, and it has a percentage factor. I worked in a grocery store, actually, for the Zehr's people and they did a very good job of finding a niche in the marketplace in southern Ontario in terms of service. But I was constantly surprised at how much lack of training and development there was of the staff. I am just wondering whether you could comment in terms of whether there are industry standards on that basis, or do you just assume that, you know, people you hire off the street are going to know how to deal with people?

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**Mr Ryan:** Speaking specifically of Zehr's, Zehr's and the United Food and Commercial Workers have a joint program and they have a joint training centre that they work at together to accomplish exactly that particular objective. I cannot speak to the time that you refer to, but certainly that issue is being addressed on an ongoing basis to provide the type of service that customers are looking for.

**Mr Sutherland:** I was also under the impression that you set aside a certain percentage of your sales budget on



percentage of your budget for community involvement, community support. I was wondering if you can give us an idea, is there a standard and could you give us some idea to how much money you are putting into these communities, maybe in the communities of Ontario altogether, in terms of supporting minor ball teams, hockey teams, Big Brothers, hospital campaigns.

**Mr Carter:** I am going to ask them all if they would think about that. One of the things that is hard to estimate is giving to a food bank, or at what level do you do it. They may have different ways of calculating that. Some things you do when you distribute things and pick up in your trucks. Not everything will be able to be caught in a balance sheet, but I might ask them to comment. I know they are involved in different things within the community. A percentage of sales, that may be tough, but they all are involved.

**Mr Ryan:** We certainly would not have that number with us today, but there is not a segment of the grocery business that is not actively involved. Certainly from our standpoint, with the large franchise component of over 200 stores, there is a tremendous local involvement in small-town Ontario and large-town Ontario.

**Mr Carter:** A lot of this is done by the franchised players. Kevin is with National Grocers, Jonathan is with the Oshawa Group, and the independent grocer will be involved in what is going on in his community. As far as the collective side is concerned with our trade association with the members, there are a number of things going on right now that are community. You may have noticed Cash for Kids, which helps Variety Village and the telethon and they have all been involved in that. You may have noticed the Kids Help Phone, which is to help children, which is a new item, and of course Computers for Kids where we are trying to raise money for the elementary schools. There is a lot going on.

But I would like to get back to one of your questions, if you could, that talks about the service in the United States. When you have to hit a certain sales per labour hour, in this case it is \$116, and your cost of labour goes up, because we have a higher minimum wage here than in New York state, it cuts down on the availability, so it is harder to have as many labour hours available. So when you face a competitor across the line who has got a lower cost, it is easier for him to have more service.

**Mr J. Wilson:** As I am a member of the Conservative caucus, it will not surprise you that I am pleased with most of your recommendations and comments in your brief.

You identify competitiveness as the overall underlying problem. We are constantly frustrated day after day that the government continues to blame free trade, and I think you said in your oral submission that you did not really feel the FTA had any effect on retail prices. That could be somewhat true and could be argued a bit, I guess.

You identify the importance of pricing and the price advantage enjoyed by the United States. We have had a real problem convincing this government that that is what is driving people across the border, the price advantage.

Having said all that, I am interested in the topic of Sunday shopping. We had about eight months' experience of open Sunday shopping. Could you comment, please, on what the effects were on your stores. The Premier very clearly today, in response to a question in the House, said Sunday shopping had absolutely nothing to do with cross-border shopping. Perhaps you could just comment a bit on that.

**Mr Carter:** I would like to ask my friends to do that, but I would like to just correct one thing, if I could. We said that the free trade agreement, at retail, had nothing to do, not with prices but with the shopping exodus. That was going on before that came in and we think it would have been going on anyway. What is going on as far as the migration is concerned had really nothing to do with that.

**Mr J. Wilson:** Because it is price-driven.

**Mr Carter:** Yes, that is true. I would like to ask my associates here to comment on the effect of Sunday shopping on cross-border shopping, if they could.

**Mr Wolfe:** No one in this room will have trouble with the concept that some time late last spring and early last summer the Ontario economy went into a tailspin. It began a tailspin and has continued in that direction since then. Coincidentally and concurrently with that drop was the court decision that allowed Sunday shopping.

I do not think anyone in this room could statistically verify which of those two events was the cause of the sales trend that has developed in this province since then, but I think as a retailer I can indicate that of those two concurrent activities, one had a mitigating impact on the other. The fact that the Sunday shopping became available in June, in our view, slowed the decline of retail sales.

I would suggest that to pretend that Sunday shopping is not related to a border issue is perhaps wishful thinking. We closed our store in Fort Frances, Ontario, as a direct result of our inability to compete on Sunday, and this happened before Sunday shopping was legalized in the province last June. This happened in early spring last year when we noticed our customers travelling en masse to International Falls, and we merely had no option after asking the municipal authorities for permission to compete on Sunday. They denied us that permission. We closed the store—it was a UFCW store—and felt we could no longer compete. That of course is an anecdotal example. There are more and there clearly will be more. To deny it is wishful thinking.

**Mr J. Wilson:** I notice your final recommendation is joint collection of the PST and the GST. I am going to ask you a political question. Given the politics of this, with the government in Ontario now, how realistic is your expectation or hope that you will see those systems merge?

**Mr Carter:** Our estimate is that harmonization would be good for the Treasury in Ontario. It would actually increase income to the Treasury. I do not know if that is a good thing politically or a bad thing. I will not comment on that.

**Mr J. Wilson:** It is good if you are the government and you can get away with it.

**Mr Carter:** But you have to present your budget next week.



It will also make life easier at the retail level, because harmonization—as has happened in Quebec and other provinces; they have looked towards harmonizing—makes sense from a mechanical systems side. We would hope they would look at it. I would not comment on it politically. I think some day, myself personally, it will happen because it makes so much sense.

**Mr Dadamo:** Has the industry ever thought of doing an analysis of some products that are available in both the US and in Canada, and sort of go on a comparison campaign and go on a media blitz for a short time to tell people that it is costing duty and taxes, travelling time, gasoline, etc, and could you possibly make a case to show them that it would be much cheaper to buy a batch of products here as opposed to going over there?

Clearly, where I come from—as I mentioned this morning, Windsor is my riding; the Ambassador Bridge is in the riding—we know that people are going in hordes to the Pace Warehouse, and we know that they are going because of course they can buy in bulk. I know that Farmer Jack's has tried doing the bulk thing in Windsor and it just does not work, because they cannot sell that case of whatever cheaper than Pace can.

So my point is a comparison campaign. Has it ever been thought of? I think it would be worth your while. I spent many years working in that industry, by the way, with Dominion Stores, since we are name-dropping, but years ago. Run those full-page ads.

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**Mr Carter:** One of the things that retailers do, and you probably notice it in Windsor, is that they will pick out those items where they can compete, and there is a whole pile of them—we talked about them earlier, the pork and then the beef and the grain items—and they will bang those. So some of that is going on. If you tried to say, "Don't go to the States to buy poultry and eggs and milk," you will lose, because it makes sense, particularly when you throw in gasoline and cigarettes are half the price, as beer is, and so forth. So you have got to be careful when you do a comparison. If they are going after those items, your mathematics will fall apart. But the retailers do push those items where they can compete.

Let me ask my associates here: Farmer Jack's?

**Mr Winstanley:** We operate Farmer Jack's on both sides of the border, and the reality is that normally when you get into a situation like that you encourage retaliation, and that is retaliation that is suicidal, and you do not get into suicidal marketing games. So that is really the end of it.

**Mr Dadamo:** But if you are running stores on both sides of the border, and I presume that you are buying from, say, one central warehouse someplace.

**Mr Winstanley:** No. You cannot do that. Maybe the presentation has not made it very clear, and if it has not, I apologize on behalf of our committee.

**Mr Dadamo:** No, that is okay. I walked in halfway through. I apologize to you. I may have missed it.

**Mr Winstanley:** Okay, I am sorry. If I could just respond, though, you can just pick up the Globe and Mail

and you can take a look at what the price of market on chicken is between the two countries, and it is less half the price, and dairy, and go through all of those is. We do not get into manufactured items. We have got it that we are growing, raising, harvesting right here in province that we can deal with, and I think it has to come the will to deal with those issues and to remove from the jeopardy that we now find ourselves in. I have stores in this jeopardy right now.

**Mr Dadamo:** Mr Kwinter was talking about Kellogg's earlier, and I had heard not long ago that the costs more to manufacture than the actual contents over the

**Mr Winstanley:** We covered that one earlier.

**Mr Carter:** I would recommend that you get Kellogg's in and ask them a little bit about that. But if you get Kellogg's in, you probably should go right back, because you have suggested, or at least I thought you would trace it right back through the system. I think that is a very worthwhile exercise, when you can not only their business input cost right back, but the retail input cost. We do not know what is going to come out of this study the feds are going to present on Monday but you might send an observer down, maybe from your research side, to see if that may be a model to do it. I think it would be very useful to do that, and you could take a look at poultry going back through it, and then the process. It is interesting that you find pricing comparisons show that fresh fruit and vegetables between Canada and the United States are a lot closer in price than the processed. That would be an interesting one to follow through as well.

**The Chair:** Okay, I am going to terminate this presentation at a quarter to. That would have given them an hour and I have two more questions, one from Mr Hansen and one from Mr Ward.

**Mr Hansen:** I grew up in the grocery business. When I was in high school I worked for Loblaw's and then I worked for Dominion. What I saw earlier in my life was small grocery stores on the corner. Then came Loblaw's with their large stores, so this was a new type of market in grocery stores. Then later on, at Loblaw's at one time they had Toronto prices and Niagara prices. In order to be more competitive they took the Toronto price, so the price was the same in the Niagara area as it was in Toronto. Then we came along with different type of grocery stores again, Comissio's, where they put the whole case on a shelf where there is just a price there, a code and everything else, so that is another type.

Do you think we are going through another phase of marketing in the grocery store business, that it is distributed? It is a whole lot of things that we have seen here? We have listened to submissions here since January in different areas for the finance committee here, and it seems like everything is changing. And as we have this cross-border shopping, we have to become competitive, and I know we have only one question, so I am going to try to put it all in if you can comment on it.

The other thing is, Mr Wilson, subbing in today—I do not know if he has read all the reports, but on the Sunday shopping issue—



**Mr J. Wilson:** I have read the sectoral reports, you might know, also.

**Mr Hansen:** Okay. One report that came in said 65% of the people were shopping in the United States because of price; 1.9% was because it was open on Sunday. It depends on where you stand to take the survey. If you stand at the bridge on a Sunday and ask, "Why are you going to States?" they say, "Because the stores are open," possibly. But in this whole list, from 65% down, and it got cut down to 0.03% because they like the margin, there are quite a few different elements involved in why they are shopping in the States.

I have already heard some of your comments on the Sunday shopping, but perhaps you could give me some comments on the grocery industry. You feel this is an area that we have to move on as a different type of marketing and distribution?

**Mr Winstanley:** Let me answer that in this way. Yes, you are absolutely right. You have had the entry of people from Ontario like Price Club, which has three locations now and will end up with seven. They do over \$2 million a week. Their labour costs are fractional. They are non-union and they are open Sunday. By the way, they open Sunday without regard to your current ruling. They pay no attention to you. So they do that and they take a lot of our business, and they are non-union.

They bring in a lot of products that we cannot sell. We have raised the issue about before, the single-language product—

**Mr Carter:** You might say illegal product.

**Mr Winstanley:** I am not going to use the word "illegal."

**Mr Carter:** If it is one language, it is.

**Mr Winstanley:** Yes, single-language product and so on. So there are lots of other things going on. There are lots of people finding ways that are open and available to them, and yes, and I have 27,000 employees and they operate a store with very, very few and they do over \$2 million a week. So, yes, you are absolutely right in your estimate.

**Mr Carter:** I detected at least two parts to your question and I would like to refer to them. The second one dealt with the research, when you asked people why they went to the States. Was it because of low prices or Sunday shopping? That type of research is most difficult to get a proper answer on because it may be because of both. It may be because a bunch of other things. I would suspect that is not the perfect forum to find out which is the dominant part. Our own research and observation lead us to believe that low price is the driving thing, and then if you can do it on Sunday, it may take a little bit longer. You cannot go down the street, you have to cross the border, so you need a little bit more time. Sunday is a perfect time to do it. It gives you a little more time, so it is a combination of those factors.

The other part about the changing market, the market is very dynamic. You may have noticed the difference. You asked about the format changes in stores. It is changing a

lot. It is also changing in terms of the composition between independent operators and chain store operators.

Nationally, the share of market devoted to independents is going up. No place in the country is it going up faster than it is in Ontario. A lot of that is due to the increased labour costs. They have to face lower labour cost independents with pricing advantages which they enjoy. It is very dynamic.

**Mr B. Ward:** You are as harsh as the other Chairman when he is in the seat.

**The Chair:** He is teaching me the brutal ways of being a chairman.

**Mr B. Ward:** Just one quick question, and it deals with the pricing of the base commodities, which I would call milk, turkey, ham, etc. We have been told throughout our committee sittings by some organizations—not all, but some—that there is an apparent massive American subsidization of the agricultural sector in America. Primarily, this subsidization has led to some pricing policies that some could construe to be artificial in the sense that milk is costed at a below market price because of the amount of subsidization by the American government.

Until I heard this, I was led to believe that in America it was primarily a free enterprise system. Apparently it is not. Has your group done any research into the pricing of American commodities and the amount of subsidization of American tax dollars into that sector? If you have, would you recommend that perhaps our federal government should be looking at increasing the subsidy of our commodities to match their subsidy, if that is possible? I understand it is very massive.

**Mr Carter:** You bet. I am going to ask Mr Wolfe to get in, but just before he does, you are quite right. The United States does subsidize its agricultural sector. It received a lot of publicity in the recent Uruguay round in the GATT negotiations. Each of the countries participating was asked to fill out forms talking about its subsidization and the method of subsidization. It is really the method that is of particular interest here. The United States places a lot of emphasis on grain and dairy subsidization. It comes through the Treasury, the tax dollar. The Canadian groups tend to do it both through taxes but, primarily in those four commodity groups, through higher prices, which go through to the consumer. It is the difference that we see at the border.

1650

**Mr Wolfe:** Mr Carter's comments are dead on the mark. The real issue is not that the American government subsidizes its farmers more or less than we subsidize the farming community in Canada. It is the way in which it is done. It is done in Canada at the retail level. Our consumers pay that subsidy. In the United States it is the taxpayer who pays the subsidy and the consumer benefits from a lower retail price. So I do not think it would be fair to accuse the Americans of unfair subsidization—

**Mr B. Ward:** I did not say that.

**Mr Wolfe:** Oh no, I am not suggesting that either. I think it would be very beneficial if provincial authorities



took note of the differences in methods of subsidization and took an initiative to speak with their federal counterparts.

**Mr Carter:** I might add that it is particularly difficult in Ontario because Ontario has grown more rapidly than other parts of the country since the supply-management marketing boards were created some years ago. You may remember that they fixed the division of the national production quotas according to that time period. Ontario now gets short shrift because we have grown more than other parts of the country, which compounds the problem here.

**Mr Wolfe:** In effect we have less quota on a national basis than other provinces, which translates into a shortage of available product in this province, and that by definition raises the price to our consumers.

**Mr Carter:** If you are looking at things to follow up on we would like to put this on the list because it particularly disadvantages Ontario consumers. If you are writing this down you might take a look at the new report that came out from the poultry task force which recommended opening the quota assignments that were set for supply and management. If Ontario supported this it would certainly help. It is the first time this has happened and that was an all-sector committee that recommended it; it had farmers on that committee.

**The Chair:** Okay, I would like to thank you for your presentation this afternoon. It has been very helpful, and the hints and directions and guideposts that you gave us will also allow us to do some more research and will probably help us come to some kind of recommendation. We do not know exactly where we are going yet with the recommendations, but thank you for your presentation.

**Mr Carter:** Thank you, Mr Chairman. We stand ready to help in the future if that is useful to you and with research or to reappear. We would like to emphasize that this is about the most important issue we have got so we are at your disposal. Thank you.

#### ONTARIO BORDER COMMUNITIES MAYORS' TASK FORCE ON CROSS-BORDER AND SUNDAY SHOPPING

**The Chair:** Our next presentation is the Ontario Border Communities Mayors' Task Force on Cross-Border and Sunday Shopping. They are going to do a grand entrance. Thank you for bringing your signs. It is a good test of whether I need glasses or not from this distance. Please introduce yourselves.

**Mr Fratesi:** I am Mayor Joe Fratesi from Sault Ste Marie.

**Mr Bradley:** Mike Bradley, city of Sarnia-Clearwater.

**Mr Millson:** John Millson, mayor of Windsor.

**Mrs Lawn:** Sandra Lawn, mayor of Prescott.

**Mr Lyons:** Dick Lyons, mayor of Fort Frances.

**Mr Hardy:** Roland Hardy, mayor of Welland.

**The Chair:** Okay. Begin your presentation, please.

**Mr Millson:** Thank you very much. I certainly appreciate the opportunity to make this presentation to you today. I will just begin by stating how the procedure began for this group of individuals to get together.

Back about three weeks ago the Premier was in the of Windsor and was at a head table with myself and mini Dave Cooke and we were talking about various iss cross-border shopping and Sunday issues, and it was s gested that possibly the border communities might get together to discuss the Sunday shopping issue. That was c Friday. On Monday morning I was interviewed and course I began receiving phone calls from mayors all of the province of Ontario suggesting that they wanted to on this committee as well.

By Monday afternoon I had unanimous support fr 14 border communities to meet the following Wednes to discuss the issue. We assembled in downtown Toron Actually, we used the Association of Municipalities of C tario office for convenience. The group met. The Suno shopping issue took 15 minutes; the rest of the three ho was totally delving into the cross-border shopping issue do not think that there is a single issue that we have in c community right now that is of greater concern to us th cross-border shopping. I might say that as a country and a proud member of this province, I do not think the provin has a greater issue than the unemployment that is presen happening in this province and across this country, and feel and I hope we are able to demonstrate slightly in c presentation that many of the things you are seeing in t retail sector right now are just the tip of the iceberg, and fact the problems that have created cross-border shoppi are the same problems that have created the tremendo erosion in our manufacturing base.

I will just begin, as well, by indicating that the differ figures that I have used have been comparisons of the c of Windsor in some instances between last year and this ye only because I would not want to bring forward figur from another community that might be inaccurate and I kno the accuracy of the city of Windsor's.

Windsor's unemployment rate has soared from 9.2% March of 1990 to 16.4% in 1991. Unemployment rat across Canada, as you can see, have risen to a level th almost parallels the recession of the early 1980s but is ve unique in that it is continuing to grow.

Welfare levels: Now these figures are not entirely a curate, but I can tell you that the increase in welfare rolls one of the reasons which have tremendously brought th group of mayors and the municipal level of government the table, to react to this terrible dilemma that we fir ourselves in. The previous slide showed unemployme levels on the rise. We all know what is going to happen the bulk of those unemployment figures next year unle we see a major increase in manufacturing. The fact is th those people are going to be off unemployment and on the welfare rolls, which impact negatively on our proper tax base, and we as mayors are concerned about that.

1700

The cost of cross-border shopping: \$2.3 billion a ye nationally, \$1 billion alone in Ontario annually. We hav with us, as well, John Winter, who is back here, who ha been very generous in allowing us to pick his brain an also is here today as a resource individual. Many of you a aware of the report that he has put together dealing wi cross-border shopping. We consider him to be an exper



as you can see by the arrow, his suggestion is very far that through the figures we have seen last month, cross-border shopping is increasing in numbers hourly.

Employment loss in Windsor in 1990 is 7,200 and across the country is 430,000. As it was reported in our Windsor Star by Richard Brennan, who is of course an expert on reporting accurately, he indicated that in the province of Ontario there are some 1,500 jobs per day being lost just in the manufacturing sector alone, which causes great concern for us all.

One of the issues that this committee has been able to identify as reasons on a national level that have created a dilemma in our country and things that have to be dealt with is to reduce the deficit. We are suggesting that GST be put specifically against the deficit to bring it down to a level to bring our economy back into a resemblance of what a country should have for an economy.

Reduction of interest rates is in fact taking place, but we do not see the reduction in the dollar. There are many of us who feel that the dollar has been artificially set at a high level over the last two years that is too high and has not allowed our country to be an export country, of which we have been very proud for a number of years, and in sectors such as Windsor and other border communities has impeded our ability to be a manufacturing centre in the global market.

We are suggesting to deregulate or reduce regulations. We are looking at the marketing board there as one of the main areas that should be addressed in our concern over food prices and spiralling food prices.

To investigate the wholesale monopolies, there are many cases, very clear evidence that in fact there are wholesalers on top of wholesalers on top of wholesalers in this country that inflate the retail price. I can give you an example also of a monopoly, where a set of coffee filters that were purchased by a local restaurant organization in Windsor for the last 20 years had been purchased from Detroit for \$1.50. Now, all of a sudden, he went to buy them, was not allowed to, was told that there was now a Canadian distributor in Hamilton. He went to Hamilton to purchase them. The same package was now up to \$8, which of course impacts negatively on our community and our ability to retail and of course drives people over to the States even quicker.

Greater border enforcement: We feel there are taxes that must be collected at the border. As well, in order to meet the demand to ensure that the traffic is flowing through our borders quickly and efficiently there has to be greater border enforcement, either more staff or whatever, to get through the difficulty that many of us have—for instance, in the city of Windsor I have more hotel rooms in my downtown area of Windsor than there are in downtown Detroit. Downtown Detroit has the largest convention facility in North America, which attracts literally hundreds of thousands, if not millions, of visitors to the Detroit-Windsor area, many of them staying in our hotels, helping our Canadian economy. Presently the conventioners are not able to get back and forth across the border in an efficient manner because they are tied up in traffic on the bridge for three or four hours at a time, which makes our brand-new convention facility, which will open in November, a very

hard place to market, and of course our hotels are feeling the pinch right now.

Finally, we have asked that a graded tax system for border communities be looked at. This is not something that is unique. It happens in communities such as Quebec and I think in Alberta, where there is a graded tax system looking specifically at gasoline tax. We feel, as well, this is an issue that goes far beyond just levels of government but has to include all of the other sectors of our community from business, industry and labour.

We are asking that this group as well sit together to create innovative services and cost-effectiveness, to begin a marketing scheme, a marketing plan to market their products better, an educational campaign to help in comparative, and also the social cost has to be educated to the public: the fact that their tax dollars are going to the United States and not to support projects in our own country. A coalition of labour and business is necessary to pull this all together.

We have asked, and today I am very pleased to tell you, that Mr Pilkey, your Minister of Industry, Trade and Technology, has agreed to be available for this committee structure. We have asked that a blue-ribbon task force be put together to deal with national issues. This task force, we anticipate, will be of high-level ministers at the federal, provincial and also at the municipal level. As well, national presidents of business, industry and labour groups that are affected by cross-border shopping will come to a one-day symposium that will allow us the opportunity to hang our political stripes at the door, walk in as a team would, almost as a Team Canada, to be able to work through the various problems that we have identified here and to develop strategies on how we might deal with those.

I would encourage that the members of that task force would then leave that meeting at the end of the day, go back to their respective jurisdictions and attempt to have legislation and programs passed at the various levels to expedite the way that we can once again become competitive and gain our business back.

A statistic out of the Globe and Mail two weeks ago showed that the year-long recession is wiping out jobs in Ontario twice as fast as it did in the 1981-82 recession. That is what Statscan says.

This is just another familiar sight of what you see every day in the city of Windsor, where literally tens of thousands of people are lined up on the border. I can tell you that they have a very aggressive sales approach. This is our Windsor newspaper. This is the Detroit advertisement flyer that goes in our Windsor newspaper. We will not tell Richard that, of course, there is an article in here about how it is bad to shop in Detroit—we would not embarrass him like this—but this is a double-page ad of a United States' lumberyard that is advertising in our newspaper, trying to get people over. The Americans know they have a captive audience right now, and I am telling you we are losing not only jobs but millions and millions of dollars in tax revenue to this province and to this country: tax revenue that you should be collecting.

With that, I would just ask very briefly the other members of this task force who have drawn together as a group, as a



team, to bring this to this level and also to the national level as well, to attempt to get both levels of government and the community as a whole to work together on this dilemma that faces us today. Joe?

**Mr Fratesi:** Thank you, John. Mr Chairman and committee members, on behalf of my community I would like to express appreciation for the opportunity to talk to you about what is a serious problem for all of us who have come here today.

This delegation, unlike many others that you may have heard, is not an existing group with another cause. This is a group that was put together in the last couple of weeks out of a sense of urgency because we in our community share a very common problem. Unlike many other delegations that come to the provincial government or to the federal government, we are not here asking for help from Big Brother. We are here trying to convince you that you must, as a provincial government, and the federal government must become owners to a problem that affects us all. It is not just the consumer whom we can point our finger to and say we have got to solve that problem by talking to him. Waving the flag is not going to work in the economy, especially when it is a tough economy and the consumer is just trying to do his best and stretch his dollar. I think all of us who live in a border city will vouch for that.

The problem is one that all of us have to buy into; all three levels of government, labour, the merchant and the consumer. This does not just affect Sault Ste Marie or Sarnia or Windsor or Cornwall; it affects everyone, and we all lose. If the provincial government or the federal government were to quantify how much money it is losing in retail sales tax or gasoline tax or income tax or how much money is being put out on assistance to deal with unemployment because of this problem, we think all levels of government would very readily want to become part of the solution.

I come from a community, as you well know, that is suffering not only from the recession but Algoma Steel with its uncertainty, after having come out of a four-month labour dispute. The community now has another problem to deal with which is a mounting problem: the loss of probably \$150 million per year to a very small sister American city, something that has been calculated to be in excess of 1,000 jobs and with increases that we are told are coming in at over 30% per month. I think there are things that all of us have to accept that we cannot do easily and that we cannot do quickly to help ourselves out of these problems when we talk about a North American recession and we talk about a global economy, but there are some things we can do if we work together to deal with this problem, if we accept ownership of it. I, too, would like to fall behind John and express appreciation for his leadership in encouraging the three levels of government, in a serious way, to come together in a committed way to deal with the problem and to do so with a sense of urgency, the urgency that this problem deserves. Thank you.

1710

**Mrs Lawn:** Mr Chairman, I am Sandra Lawn, the mayor of the town of Prescott. We are a small community, and perhaps as a small community we can see at a glance

the effect that this kind of issue is having in our community. We also feel very appreciative of the leadership that Mr Millson has shown, and we hope that our Ontario government and federal government, along with the municipal leaders of our province, as well as business, labour and industry, can come together and recognize that this is an opportunity that we have at this moment and not, I would say, for a very long time. The window is open, but it is open for a relatively short space of time because if we lose a lot of this aspect of our retail sector, it could well be lost for ever. It does have a tremendous effect on all of our communities.

If we can work together as three levels of government with business and labour, I think this will set an example for the rest of the country on a whole lot of other issues as well. Where in the past the local level has not been involved in discussions having to do with local economies, we have a tremendous amount of work to try to improve the economy of our area, and we need to have the opportunity of working in partnership with the federal and provincial governments and the business and labour leaders of our country.

We hope you will listen carefully to this message we are bringing. It is not a message of blame, but rather it is an opportunity for everyone to work together on something that is affecting each and every one of us as Canadians, whether we live 100 miles from the border, as most of us do, or whether we live in the most northern parts of our country where manufacturing and processing and the development of our natural resources are so critical. This is a very serious matter, and it is also an opportunity to show what we as Canadians can do to affect our own futures. I am sorry I have to leave.

**Mr Lyons:** Mr Chairman, thank you very much for allowing us to speak to you today. Just to tell you where I am coming from, I am from Fort Frances, which is a 9,000 population community just north of International Falls, Minnesota. We are separated by a bridge that is only 100 blocks long. We are 150 miles from Duluth.

We have identified that we are losing 25% of our possible sales annually; we lost that in 1990. It has been predicted that we will lose 50% in two years. We now know, the way it has been escalating, we will probably lose 50% within the next year. I think this is a problem that is not only a problem for the border communities; it is a problem of the whole province and Canada as well.

We have to get together, as suggested, the three levels of government, and come up with some type of idea to give some relief from this, and I think the most important thing here is the urgency of it. We are being devastated and are being devastated fast. It is happening very quickly. Thank you.

**Mr Hardy:** I am not from a border town, but we are only about 20 minutes away from Niagara Falls, New York, and half an hour from Buffalo. People are going to the States in droves. They are buying in the States because of the cost. They can go down there and get a gallon of gas for \$1 or \$1.20. In Ontario right now gasoline is 55 cents a litre. I do not know where we are going to be in years to come.



keep going up with our merchandise and they keep going down, it is going to get worse.

I thank the mayor of Windsor for organizing this and I hope that the government of Ontario will support us.

**Mr Bradley:** Mr Chairman, I am Mike Bradley, the mayor of Sarnia-Clearwater. I think all the other speakers have summarized the same points that affect Sarnia-Clearwater. There are a couple of points I want to make to you, and it comes back to the time issue. We, I think, as a community, were very reluctant to come forward on this issue. We recognized the danger of coming forward, that we might highlight the issue, that we through the media again identify pricing. Last year I felt that way.

I want to just let you know what has happened at the Sarnia-Clearwater Bridge between Sarnia and Port Huron since 1 January and the imposition of the goods and services tax. There were 23,000 more cars this January than last January. In February, 34,000 more cars, and the figures I received yesterday in March 1991 over March 1990, almost 50,000 more cars. That is telling you the story. There is a tax revolt and it is a tax revolt where people in border communities could exercise another route to, I guess, throw back their anger at governments at all three levels.

The difficulty now is that it is becoming an Ontario problem, not just a border-city problem. I want to give you an example. Sarnia manufactures gasoline for most of this province and for a great deal of this country. Some of that gasoline is shipped to Port Huron, Michigan. In our area there is 23 cents more in taxation versus what is being paid in Michigan. The people of Sarnia are buying gasoline they make across the bridge. When we talk about a graduated system for taxation on gasoline, we are simply asking you to recapture, not to give out money, but to recapture what you are losing. The fact is, Ontario lost \$150 million in taxation as it relates to gasoline by the best estimates we have.

So the problem is not just municipal and not just provincial, and certainly not just federal. I hope you will trust that we are being sincere. We really feel this is a non-partisan, non-finger-pointing exercise. We do not want that. We cannot afford that right now. If we have the opportunity to sit down for a day or two and resolve the issues, we believe that we will go back and do what we can within our jurisdictions and that same school of thought should apply to the other two levels of government.

I come back to what I said originally: if you were to visit our respective downtowns, you would understand why we are talking about the urgency of time. It is impacting so quickly and so severely that if this is not solved by the end of this year you will not have to worry about the Loma Steels, you will not have to worry about the automobile plants or the refineries in our communities, because they simply will not have a retail base. Sadly, the jobs that are being lost in the retail base are jobs that we cannot create in these other industries. We are losing employment in an area where the people's only other option is to go to the social assistance rolls.

So we are here from all political stripes. Sault Ste Marie has Sunday shopping; Sarnia-Clearwater does not. That is not the issue. The issue is trying to stop this

haemorrhaging of the Canadian market before we have to finally shut down our retail industry.

One final point: the mayor of Fort Frances did not mention it but a week or two ago there was published by the business community there an obituary for their business community. It named all the grieving parties. It is not overstating the issue. We are in serious trouble and we need not just assistance, we need leadership and we need co-operation. Thank you very much, Mr Chairman.

**The Chair:** Turning to questions. Mr Sutherland.

**Mr Sutherland:** Thank you for coming before the committee. It is interesting, it is a serious situation and I am alarmed that in my riding, the Woodstock area, how many more people are taking weekend trips across the border and doing it on a more regular and more consistent basis.

I guess I want to bring in a couple of points. Mayor Fratesi mentioned that you cannot wave the flag on this one; that is not going to do it. Mayor Millson in the presentation talked about investigating wholesale monopolies and he used the example that if we could source from other places, such as outside the country, as this particular retailer was doing, that is one way of reducing the prices. You also talked about supply-management systems, but all of those have a cost in other areas in the economy in terms of if you are sourcing, as I believe Mr Kwinter has mentioned before, out of the country, then you are cutting jobs somewhere else. Supply management—if that is not there then our farmers are going to hurt even more than they already are.

Mr Bradley said it was a tax revolt, but really have we got a situation here where Canadians are simply saying they do not want to pay the price to be Canadian any more? They want the quality of life, but they are not willing to pay a price to be Canadian.

**Mr Millson:** That is totally false. What every Canadian is saying to you directly, the provincial and the federal governments, is that we will compete, we will compete with the best of them and we will give you the best damned product for the best damned price possible. Let us do it on a level playing field. I can tell you that Ford in Windsor is investing \$150 million in my community right now.

They are doing that for one reason, because of the quality of the workforce. They know they can compete on a world basis with the quality of workforce. My tool and die industries could be competing as well if the dollar was not set at the level it is at right now of 87 cents. If it was 72 cents, they could be doing something.

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Once again, all I am doing is stating the problem of the value of the Canadian dollar. For whatever reason over the last two years, it has gone up an unprecedented amount of money. All they are asking for is to be allowed the opportunity to have a level playing field.

**Mr Sutherland:** If I can make one more point on that, you mentioned regulations. We have some very good occupational health and safety in comparison, we have good environmental standards in comparison. You could debate that they can certainly be improved, but in comparison they are very good. I look at that type of thing, people who



are taking the benefits of that. There is no doubt they add an extra cost to doing business. But what do you say to the same people who are still working, who are enjoying those types of benefits, those extra standards and those extra costs, yet still feel that they should be going across the border, still feel that it is no problem to go across the border to get things at a cheaper price? How do you rationalize with those people? What logic do you throw back to those people that they should not do that?

**Mr Bradley:** First of all, I want to make it very clear to you, we are not here today, I guess, to debate every individual issue. What we are saying to you is, there is a multitude of issues and we just simply want to have you as part of the process of finding solutions. But I will tell you what has happened in the last few weeks in my community, since this became a national issue. People are looking for a reason to stay here. They want to shop here, but they also have to look after their pocketbooks in a recession. All of us are facing double-digit unemployment in our communities.

I will give you an example of a retailer who came to me yesterday knowing I was making this trip. He is in the furniture business and was looking at an order of \$5,000 to \$7,000 in the furniture business. An American can meet that. They are level and they continue to be level. He is willing to compete, he is willing to bring down his gross profit margin. Where he runs out of luck is that he cannot address the 7% provincial sales tax that is not being collected at the border crossing.

So what we are saying to you on these other issues is, if we even had those issues dealt with—I believe the province lost \$90 million last year in uncollected revenue on provincial sales tax. If we had the laws of this province being enforced, if we had these other issues being addressed through the process that Mayor Millson has been requesting, which is an attempt to sit down and resolve the issue, then we believe we can at least stop the haemorrhaging. We know we are not going to cure the problem, but we think we can do that by not today focusing on the individual issues, but saying, “Help us make this a national issue and find a national solution.” We need to do it literally within weeks. We cannot afford months. We need it now.

**Mr Kwinter:** I just want to congratulate Mayor Millson and his group for their initiative in putting together this task force and I wish them well on their blue-ribbon task force if it gets going.

It is a serious problem. I have said this before. I think that we are in danger of seeing the loss of our retail base, and by extension it is going to impact on the decommercialization, the deindustrialization of the province. When I look at your national issues, in every case, virtually, for every action there is going to be a reaction. I do not have a solution to it, but I will give you an idea.

John, you were talking, I assume, about the Renaissance Center, Cobo Hall in Detroit as being the largest convention centre in North America and that people would normally come over to Windsor to occupy the more hotel rooms there than there are in downtown Detroit. You are decrying the fact that they are not doing that. They are not doing that because it takes too long to get across the border.

In the next breath, you are saying, “We think there should be greater enforcement and we think one of the solutions that we’ve got to stop everybody and make sure everybody who should be paying is paying,” which means it is pushing down here and it pops up there.

By addressing that problem and saying, “Okay, we’re going to put more people in there. We’re going to search cars, we’re going to search the whole thing,” instead of it being two hours, it is going to be two days. As I say, if you have ever travelled through some of the countries in Europe, trucks that are going through checkpoints or through cross-border points are generally lined up for days. You see them there, the fellas say, “Well, it’s going to take me two days to get through this point.” So it is a problem. As I say, with every one of these problems, the solution creates another problem. I am being critical. I am not saying that we should not pursue a solution. I am just saying that if there were a simple solution it would have had it.

**Mr Millson:** Mr Kwinter, there is a simple solution, actually, and in fact that analogy that you used is an example, but if governments and people went to a local A&P, they could probably find the solution right there in front of them. If I have a Saturday afternoon, I have people lined up all over the place. All of a sudden there is somebody with a cart of 20 items and somebody with a cart of two items. So, what did the merchant do? He decided, “We’ll have a lane specifically for people with a limited amount of goods.” In customs, it would be called something similar to a red-door/green-door approach that we use. We say people who have goods to declare should in fact be in this lane. Other people, be it Canadians, Americans, tourists, whatever, conventioners, should line up in this lane and be drawn through. That is a very simple solution. It is just a mere traffic control problem.

While those people are queued on the bridge, one businessperson—or business person—might say: “Why am I paying 50% of that money just wave through? Why am I letting that go?” I would think if there was an opportunity there to collect federal and provincial taxes, it would make sense, instead of waving one person through, I will hire more staff person to put on duty to collect that tax, so they are not lined up on the bridge. In fact, if you segregated the people and ensured that there was more staff on hand to do the job, you could collect all your taxes and you could make sure there was no waiting on the bridges or in the tunnels, and everyone would be happy and you would be collecting more taxes than you are collecting right now.

Once again, I think on both of those analogies that you used, a simple trip to a grocery store would probably show you how private industry would have handled the situation.

**Mr Kwinter:** I just want to follow up on that. I am sure you do not have the exact number, because nobody does. Could you give me an idea, present day, how many people go over and shop—same-day shopping—on the border, and come back and declare it, regardless of the level of shopping they have done?



**Mr Millson:** Mr Winter might have that. He indicates he does not have that figure.

**Mr Kwinter:** Okay. I have a suggestion. I have no way of knowing, but I would suggest that the number of people to say they have nothing to—I should put it the other way around. The number of people who declare is an infinitesimal number of the people who should be declaring.

**Mr Millson:** That is right.

**Mr Kwinter:** And what I am suggesting is that whether you have a green lane or a red lane, the guys going through the green lane are going to keep going through the green lane. They are going to have their trunks full of merchandise, and they are going to say, "I have nothing to declare, thank you very much," and away they go.

**Mr Millson:** The answer to that, Mr Kwinter, is very simple again. There are rules. There are penalties for not complying by those rules. Right now, our customs individuals are quoted in the newspaper several weeks ago as indicating they were waving through 60% right now. I will just indicate to you that if in fact an individual was to abuse the lineup of a green-door system, go through and indicate that they had nothing to declare and that in fact they were expected, which is a normal process of inspection, to go to secondary inspection, I will tell you that customs have the right and the ability to confiscate the car, confiscate the goods, and never allow them back into the United States again. Those kind of penalties, if enforced, would in fact deter anyone from lying to Revenue Canada.

**Mr Kwinter:** I had to jump into that.

**Mr Fratesi:** I would just add to that, if I may, Mr Chairman. A good place to start might be to just add—and might be this simple—another little box on the form for someone who has already stopped, who is already going in to pay federal tax and federal GST, duty, at the border and have the provincial sales tax picked up. That is not going to cost anybody anything. It is not going to make the setup bigger. It is just one more box and one more amount that has to be added to the calculated amount. But that requires some co-operation between two levels of government that, for some reason or other, is not there yet. Getting to this trilevel-type meeting would put those kinds of issues on the table so that at least starts are made on finding some of the solutions, because I do not think any of us expect that we are collectively—as government together with merchants and everyone else—going to make prices equal. All we have got to do is make them closer, and then, and only then, will waving the flag work so that Canadians who are not seeing half-price gasoline but are seeing gasoline for perhaps five cents a litre cheaper on the other side of the bridge going to stay home and stay in Canada, because then they feel patriotic. There are ways, if we just sit down and start talking about them.

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**Mr J. Wilson:** I have more of a comment than a question, because I gather today really we probably do not want to get into specifics on the numerous issues and problems contributing to this problem, but just to let you know, Mayor Lyons, I was in Fort Frances over the weekend and

it seemed to me I heard a lot about taxes from tourism operators as the PC Tourism and Recreation critic. Nice place, but you are absolutely right, it was a little quiet there on Saturday in the downtown core and yet the bridge was extremely busy. I did not go across, by the way.

None the less, if our party can be helpful in having people attend the blue-ribbon panel, I think it is a good idea. My only reservation with these things is that they do tend to raise public expectations. You want to make sure the groundwork is done ahead of time so that there can be some agreement there, I would hope, and, second, encourage the tourism ministers to attend. Also we have been saying to the government something we think that they can move on right away, because certainly the federal government would like to see it, trying to convince the government: "Look, the GST isn't going to go away. You should harmonize your tax collection systems. Take the extra bodies that that would save throughout the province in terms of auditors and that and use those person-years for border collection." I was happy to hear the mayor of Sarnia indicate a joint collection at the border, anyway. You did not quite indicate a full harmonization of the systems, but we feel that would be very helpful.

**Mr Bradley:** Just the point I was trying to make is that right now the provincial tax is not being picked up and there seems to be a jurisdictional dispute between the province and the federal government and there are tradeoffs, I guess, that are not happening, but it is a very clear example of where the only people in the crossfire, the losers, are the taxpayers. But I do not have any difficulty with raising expectations, because if we do not, our community is going to be in a position where it will be a tragedy.

**Mr J. Wilson:** I do have one more comment. I appreciate the answer. We just heard from the Canadian Council of Grocery Distributors. They indicated to us that Sunday shopping was part of this issue. I think it boiled down to the fact that shopping in the US takes a bit more time and Sunday affords people normally more time to shop, because they are not working. Is there consensus among you? I gathered from the presentation that Sunday shopping has nothing to do with it. Have you come to that conclusion, or would you like to comment further on it?

**Mr Fratesi:** I come from a community that has had Sunday shopping for four years, grocery stores included. My community has as big a cross-border shopping problem as anyone else. I would hate to see Sunday shopping taken out of my community as a feature. It has become a way of life. It would simply give another reason to shop in the Michigan Sault on a Sunday, but Sunday shopping and the ability to have Sunday shopping in my community may be a very small factor in this cross-border issue. It certainly is not a significant factor.

**Mrs Sullivan:** Thank you for a very interesting presentation. One of the things that I found interesting in the discussions that have occurred to this point with the committee relates to the fact that the issue of cross-border shopping has also come to the fore at a time of recession in the province and in the country. I would be interested in knowing if AMO or if you as individual mayors have done



any kind of representative comparison with non-border towns relating to declining retail sales. We know, by example, if we look at the third-quarter report from the Treasurer, that the expected retail sales tax income is going to be down \$672 million at the end of this fiscal year. The fuel tax is estimated to be down \$19 million in this fiscal year.

Much of that will not be a result of cross-border shopping issue but will be a result of trends in shopping that have been created by the recession. I wonder if you have looked at other communities to determine in fact what proportion of your retail loss is a direct result of cross-border shopping or may reflect a recessionary impact.

**Mr Millson:** Mr Winter has done a tremendous report for various communities and is what I would consider an expert on the field.

**Mr Winter:** You just have to look at the market shares that some of our communities are losing: Fort Frances, for instance, 30% in gasoline share; in the Niagara area, 15% to 20% of the clothing dollar is going across the border. These market shares are rising relatively rapidly. The problem is how much damage are we willing to accommodate. It is going up rapidly.

**Mr Millson:** Eighty per cent of the population is within Mr Winter's circles, I think, referring to what you would purchase 15 minutes away from a border, how much would you purchase from an hour away, an hour and a half, two hours away. With that kind of population growth so close to the border, unfortunately all of your retail trade basically is cross-border-related.

When you speak about other mayors, as you can see, the provincial members from the province of Ontario have certainly rallied behind and endorsed this. I attended in Montreal last week the mayors of the large cities across Canada associated with the Federation of Canadian Municipalities. That group of individuals thoroughly endorsed this full presentation unanimously and encouraged us to continue on. In fact, where they had border communities in their provinces, they wanted to be actively involved at the national level.

**Mrs Sullivan:** Your response leads me to the next question. That is the definition of a border town. I represent Oakville, Burlington and Milton. I am told by retailers in my community that cross-border shopping has had an impact on their operations. You have suggested a gas tax that is graduated from the border to another point. I have two problems with that.

I am not sure how you would do it. It might work in Fort Frances or some place like that, but if you are moving, say, from the Buffalo area through to Toronto, how do you place a tax that does not change retailing patterns within Ontario from community to community? In fact, with the majority of the population of our province, and of all of Canada, within the limited area close to the border of, say 200 miles, Thunder Bay describes itself as a border community. It is 200 miles from the border. In fact, I think you are closer to Duluth, are you not? Where do you draw the line of how a graduation in that kind of tax could work, and even in the definition of what a border town is?

**Mr Bradley:** It is a very valid question. Even among there are two different types of individuals representing communities. There are the actual border communities that have direct connections to the US and then there are communities that are impacted further back. I have a report which I could file with the committee which is from the federal Department of Finance—it was released a month or two ago—dealing with the cross-border purchase of gasoline. I will be honest with you. The report is saying that it is a very difficult process to implement. The question you raise are legitimate. However, I think it has been worked with that type of mandate to come up with all the reasons why not. We recognize that it would be very difficult.

We also recognize, though, that the problem is as you go further back in, if you are graduating the gasoline from Sarnia back through, say, to London, all you are trying to do through the different zones—we have looked at zones of 10 to 20 kilometres, etc, and a similar reduction as you move back—is to take away the incentive to purchase gasoline. And we think it can be addressed.

We do not believe it is that easy, but on the other hand, if it is in place between Quebec and Vermont, it is in place in other jurisdictions. You are not capturing any of that revenue at the present time. Why would you not try to recapture some of it? We are more than willing to work on implementing the zones and implementing the process. We recognize it is difficult, but it can be done. What you are really trying to do is take away the incentive as you move further into Ontario. We believe that is workable and that is the solution.

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Just to go back to when all the mayors met about a few weeks ago, we all had our disagreements on Sunday shopping and some of the other issues. We all agreed on the issue—gasoline. It is the product that takes them across the border there in the border communities and then the other purchasing builds from that. In our community gasoline went to 41 cents per litre just 10 days ago. The gas station owners were telling me they were seeing people they had not seen in over a year, because it kept them, it took away the primary incentive to travel to the US. That is in a town that makes the gasoline.

**Ms Harrington:** I want to thank you for coming to the way here from all across Ontario. It really is impressive because you are making a very strong statement. I must admit to you that I represent the city of Niagara Falls, so I know exactly what you are speaking about.

As a consumer myself, and having to shop and feed my family—that is, up until September; now my husband does it—I understand what it is like to be there and I would agree with Mayor Fratesi when he is saying that at least when the prices were closer then things, I am sure, would work out better. I believe also, to agree with you, that gasoline has a lot to do with it, with that temptation to go across that bridge. Myself, I take into account the time it takes the aggravation and all those things, and it is not worth going across.

If we could get more people to consider the other factors that are involved in it—we mentioned the people in



ession who do not have the money and therefore are struggling across because of their budgets. Certainly, it is a free country and we cannot point fingers at people like that, but we have to, I believe, educate people to think about what they are doing and also be realistic about looking for all kinds of solutions. There is a whole range of them. I certainly have looked at a lot of them and we have to do something.

I would like to tell you that a month ago I did ask Premier Rae to meet with our local mayor about this issue and some other people from our community as well. He told us that he was open to local solutions, so I am saying to you that I believe—this is the first day I have been with this committee—it is this committee's responsibility to carry forward all the recommendations that come before us, to make sure that they are heard and to make sure that there is some kind of action. I think that is our responsibility. As I said, you were talking about a task force, so I certainly would endorse that.

I wanted to ask you a couple of questions. In our community we had an initiative from the merchants themselves which was called Shop Ontario. I would like to ask if any of you have been involved in that and whether or not that is going to do anything to help. Second, you said—and I am trying to quote here—that the same problems cause the loss of manufacturing jobs as cause cross-border shopping. I was hoping you would explain that a little bit more. I have those two questions for you, Mr Millson.

**Mr Millson:** On the first issue, with regard to the various merchants and the various plans and the provincial report that came out of, as you call it, Shop Ontario—

**Ms Harrington:** That is it.

**Mr Millson:** —that has been reviewed by ourselves of course, and it has also been reviewed by the chambers of commerce, I know, not only in Windsor but in many communities across the province. In fact, they find it a very useful tool. The chamber in the city of Windsor has adopted that and is attempting to work at the grass-roots level to get the various retailers together to be part of that program. They have initiated joint advertising dollars, and I will say that my municipality, the government, the municipality itself, has involved itself financially in many of those joint advertising campaigns. I hesitate to mention that, because I am not sure whether it is really legal under the Municipal Act, but we nevertheless have joined forces, through our tourist and convention bureau, to put money into the coffers of the chamber of commerce to jointly put together self-financing ads running in Detroit papers and also to compete locally, so that our merchants can compete and educate the community itself on prices in our community.

I am sorry, the second question?

**Ms Harrington:** You said that the loss of manufacturing jobs and the cross-border shopping had the same root cause. I wonder if you could go through that.

**Mr Millson:** Right. Well, very simply put, one of the reasons that many Canadians go to the United States to shop is of course the price, the competitive nature brought about because of a dollar that is not where we as manufacturers probably think the dollar should be. Therefore, the

manufacturing sector, over the last two years, has been fighting this same kind of competitiveness that the retailers are facing right now.

Therefore, many of the tool and die industries, many of the manufacturers, have not been able to compete. As we see, the coming in of the free trade agreement with Mexico is another fear that in fact we could very well be losing once again. Every single day we all pick up newspapers that show more plants closing. Since your government has taken power, there was a report the other day, there have been 260,000 jobs lost in the province of Ontario.

Once again, many of those jobs are gone for good, which is much different than what we saw in the 1981-82 recession. Once again, I am saying to you that a lot of that dilemma has come about because of fiscal policies, monetary policies that this country has adopted and carried forward for the last several years. Those are items that have to be addressed, that are just now being seen at the retail sector but actually started at the manufacturing sector earlier.

**Mr B. Ward:** I think, when you look at the problem of cross-border shopping, primarily it is price. I do not think anyone could deny that. Primarily, the consumer is trying to get the best value for his or her dollar, especially during tough times. If things appear to be cheaper in America, obviously that is where that individual is going to go.

You have made some recommendations. I think part of the problem is that we have two different systems or societies. America has its society and we have ours. America has toll-booths—we have road construction out of general revenue—toll-booths to pay primarily for their road construction or maintenance. Municipalities in America have the ability, it is my understanding, to defer property taxes or to defer some taxes. In Canada and in Ontario, you do not.

In America, they do not have an adequate medicare system. In Ontario and in Canada, we do. There are a number of philosophical differences between the two countries as far as social policies are concerned. In America, if they face a financial crunch, as Detroit did not too long ago, they lay off 300 policemen or they shut down the transit system, as they did in Buffalo. In Ontario, we ensure that we have stability by having adequate revenues through property tax and/or transfer payments from the province and the federal government.

Have you examined that aspect of the situation? I think we have to get to the meat of the question. Do you suggest that perhaps Ontario and Canada should be heading towards a more American-type system? By American system, I mean their tax system and the resultant impact that would have on some of our philosophical policies. Or do you feel that out of the task force recommendations perhaps a number of solutions or recommendations could be suggested so that we could avoid that? I mean the idea of Sunday shopping, the idea of the tax zones for gasoline, the idea of stricter border inspection. Sometimes I think we do things backwards. They are trying an express lane in British Columbia for Canadians and perhaps that should be for Americans, to encourage them to come to our country.

Philosophically, do you think that perhaps, in your opinion, we are doing things wrong as a society, or do you feel that there is a solution to be found by implementing a



number of recommendations so that we can avoid heading into the American tax system?

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**Mr Millson:** Anybody want to tackle that one?

**The Chair:** When you start to answer that, I want to make sure you know that every word is going to be recorded.

**Mr Fratesi:** I think as long as it is lawful, as long as it is convenient and as long as it results in a bargain to shop on the American side, we all have to recognize who our competition is. It is a fact. We are competing with the American merchant—and when I say “we,” I mean me as a municipality and you as a provincial government and the federal government as well as the merchant—for dollars, whether they be tax dollars or they be dollars that are in the till. And no, I do not think any one of us wants to Americanize our system, but we have to recognize that is whom we are competing with as long as our borders are the way they are.

No one is suggesting that they should be shut down, because that would be regressive, but that is who the competition is. And yes, to your last question, should we be sitting down and talking about this, that and the other thing and putting together a package of things. When I talked about waving the flag before, I was not just appealing to someone's sense of patriotism. I was talking about trying then, and only then, when things get closer, to talk to him about how important our system is because it funds the medical system, because it pays for the roads. He will listen to it when we close the gap, but he certainly is not going to listen to it when he is paying double the price here and it is lawful, it is convenient and it is something that is available for him to stretch his dollar in an economy.

So yes, you suggested there were things that we could sit down and talk about. “We” has to include all levels of government. “We” has to include a merchant who might have to smile longer or with a bigger smile because the American competitor is offering price only. All sorts of things have to be done, but it has to involve everyone, not just you as one level of government or me as another level of government. And not just the consumer, to appeal to him that our system is much different. As long as we remain in a competitive position with Americans, we have to recognize that we are competing. We do what we must. That is what this is all about, putting together what we must.

**Mr Bradley:** A very impressive list of comparisons. I always like to use one when I am in Michigan speaking: that they have organized crime and we have the Liquor Control Board of Ontario.

**The Chair:** Is that a comparison or a contrast?

**Mr Bradley:** I say that with all respect. The former member for Sarnia has now gone to that great heaven.

I would just very quickly make the point that of any group of people in this country, we have managed to resist becoming Americanized. We are very proud of being Canadian, and we know we can compete, as the mayor of Windsor indicated. We recognize there is a substantial difference. There is a substantial difference in municipal taxes. But we respect the benefits we get out of that.

What we are just trying to do is, again, move the pl field to a level where at least they have a fighting ch That is all we are asking for out of this whole exercise

**Mr Millson:** Just in conclusion on that, Brad, i last couple of days did you not just lose 350 employe your community?

**Mr B. Ward:** It seemed like we were losing a p week for about the last six months.

**Mr Millson:** I guess that is probably my point. No wants to go to the American system. It is a great pla vacation once in a while but, you know, do you wa live there type of routine. But the difficulty we al facing right now is as you are experiencing today in community. You lost 350 employees. Who in the h going to start paying these bills? Who is the one wh putting the money into the coffers of this province an this country to give us the hospitalization? You say you are collecting taxes, and I am saying to you that t is not going to be anybody able to pay the taxes any m That is where we are at and that is why these border c munities have this problem.

**Mr Hansen:** Mr Kwinter had stated earlier that like a snowball; it is growing. I agree with him on that I hope it melts pretty quick.

I see a lot of other social costs involved, like in S Ste Marie just recently, the money that came from province for the development of the park. That park be free for people in Ontario and to attract tourists to c from the United States. But it seems that when you g the States and you go to a park, you have to pay to ge you have to pay to park your car. So we have a diffe fabric here in Ontario completely.

Mr Winter described Fort Frances also. The police partment is, I think, double the size in Fort Frances of v it is in International Falls. Not only that, but there full-time fire department, which is safer in Fort Fran than it is in International Falls. So when you start compar these social costs that are protection to your family, e the fact that people felt safer shopping in Fort Frances t in International Falls, people have to compare all th things, and what do they want in the end?

This is a short-term gain; they are gaining right now going across the border. But what we have to do is tak look at the long term. I am glad that this task force star before we even had a chance to ask you, because this v one of our objectives that we have been going along partnership between the federal government, the provin government and the local municipalities. You are just c step ahead of us. I think we said this about three weeks a and I do not know whether you heard it on the radio or T but this is an area that we are coming to.

We have sat through most of these hearings; we ha some that are subbing in here today. But the other thing that I look after a rural area, which is Lincoln. I can s that in the municipality, with the tax base, if we are payi more for welfare cases, and it is going to grow, then v have to cut in certain areas. So most likely for the ball d mond down the street you say, “Sorry, we do not have mor in our budget for the parks department this particular yea



only that, but the corner store or the small shop will "I do not have the money this year to sponsor your baseball team." So I think you are going to find that it is going to change the whole fabric here in Ontario if we do solve this problem right away.

I have talked to the Minister of Revenue already. They are taking a look at the tax situation in New York state. I brought to her attention that you go to the States and buy lawn and lawn furniture and have it shipped over here and they tell you that you do not have to pay state tax because you are going out of the state. They tell you on the telephone that you do not have to pay provincial tax; it is up to you to pay it. All you have to do is pay 8.3% duty and 7% GST and they will drop it in your driveway.

So these are new ways that the competition is trying to get in that back door. We have to close that back door and lock it a little bit. Thank you.

**The Chair:** I would like to thank you for coming. I know you have travelled a long distance. I think the fact that this committee is having these hearings and has invited as many people as it can to them is an indication of the degree to which we take this as being a very serious issue. We are seeking to try to find solutions and recommendations that we can give to the Premier and to the government.

**Mr Millson:** Thank you, Mr Wiseman. Thank you, members, very much.

**The Chair:** We have one piece of business as a committee before we break. On Monday there is the meeting of the government's and private sector representatives on the cross-border issue at the Ramada Renaissance hotel. It is at 10 o'clock in the morning and it goes until 2 o'clock in the afternoon. Obviously, if you can make it—that would be your own—that would be great. As a committee, I do

not think we can go because of the time. It has been suggested that perhaps we should send the clerk and Anne or David to this meeting, but we need to have direction from the committee to do that.

**Ms Harrington:** That is Monday morning, 10 o'clock, in Niagara Falls?

**The Chair:** Yes, from 10 until 2 o'clock.

**Mr J. Wilson:** I do not know whether Mr Sterling would have a problem with that or not.

**Mr Hansen:** Monte, do you have a problem with that?

**Mr Kwinter:** I have no problem with that.

**The Chair:** In the past we have discussed the whole idea of travelling as a committee. Travelling as a committee, in this circumstance, I do not think is possible, and I know that Mr Sterling would not agree with that.

**Ms Harrington:** It is the first time I have heard about it, but I would like to check and see if there is any possibility of my being able to go for at least the morning.

**The Chair:** You can do that on your own, but this is to send two members of the research staff.

**Mr Kwinter:** Oh, just to send them?

**Mr J. Wilson:** We have no problem with that, no.

**The Chair:** Okay.

**Mr J. Wilson:** I thought you wanted to send Norm.

**The Chair:** It is agreed. Okay. No, just that you are filling in for Norm.

**Mr J. Wilson:** We can get rid of him for a day, sure.

**The Chair:** Okay, so we can decide who is going to go. This committee is adjourned until 10 o'clock Thursday.

The committee adjourned at 1801.

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# LEGISLATIVE ASSEMBLY OF ONTARIO

## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 25 April 1991

The committee met at 1010 in committee room 1.

### CROSS-BORDER SHOPPING

#### BUFFALO ADVERTISING INC

**The Chair:** We have a quorum now, if Mark Adler of Buffalo Bargains could come forward, please. Thank you coming to the committee.

**Mr Adler:** I am glad to take my place before you this morning as a proud Canadian and as a resident of the province of Ontario. As the Chairman said, my name is Mark Adler. I own an international company, Buffalo Advertising Inc. I am also an international author. I published a book titled Buffalo Bargains, which was released last September. Within the first three weeks of its release it became a Canadian best seller. I was very pleased with the progress of the book and the sales. To date, Buffalo Bargains has sold over 25,000 copies, making it not only a Canadian best seller but a best seller in the United States as well.

My company is also in the business of providing shopping directories not only for Canadians who live in southern Ontario but also for Canadians who live right across the country. I am publishing books for Bellingham, Washington, Montrealeers who head to Burlington, Vermont, and for people who live in Atlantic Canada who shop in the north-eastern United States.

Although I have not gotten much ink on this aspect of my business, I also provide shopping directories for Canadians shopping in Canada, but the more popular side of my business these days seems to be for those Canadians who are heading to the United States to do cross-border shopping, which has become known.

I come before you today really to talk about ordinary people, ordinary Canadians. I am talking about the single mother of two who has to go to Buffalo to provide milk for her children, where she can buy it at 69 cents for a half-gallon as opposed to paying \$3.18 here in Toronto; the single mother of two who has to go to Buffalo to buy her vegetable soup, where it is only 49 cents as opposed to \$1.09 here in Toronto.

I have some comments by ordinary Canadians which have appeared in the press, some of which I would like to share with you. It is a reflection really of how Canadians and southern Ontarians feel about having to shop here, having to pay the high prices here and rising taxes.

I have one quote here from an article that appeared in the Toronto Sun last November, from a 33-year-old civil servant. It does not say whether or not he is employed, or at what level of government, but he says: "Everything is cheaper, kids clothing, groceries, toys and shoes. And there's also tremendous deals on shoes. A pair of boots I bought here for \$15 are \$60 at home. Cowboy boots I bought here for \$22 are \$75 at home." He goes on to say: "It's our crazy government's fault. Prices in Toronto are

outrageous. We're paying so much because of all their taxes and that's why we have to come here." They go on to say that they hope—this was during the wintertime—that there would be a blizzard so they would have to stay over longer, so they could legally bring back more goods to Canada.

From an article in the Globe and Mail, we have another ordinary Canadian. These are people who live in Thunder Bay who shop in Duluth, Minnesota. We have one resident saying: "Retailers in Thunder Bay have ripped us off for so damned long and now it's catching up to them. My brother saved \$700 on a refrigerator. At these prices I can't afford to be loyal to Canada." He goes on to say: "No way I feel guilty. I could care less. It's cheaper in the US, staff are friendlier and there's better selection."

Let me just finish off with one quote I found rather humorous. This is a butcher in a Super Duper market in Buffalo, where he is telling one Canadian consumer that turkey costs 75... a pound. This is compared to \$1.49 a pound in Toronto, and he says to the Canadian consumer, "Guess you guys are the real turkeys."

Let me put the human face to cross-border shopping, how it affects people, why people are going, why Canadians are hopping in their cars and taking the hour-and-a-half drive from Toronto or from Oshawa, or the 20-minute drive from wherever it may be, St Catharines, to head down to Buffalo and shop. Something must be wrong if a resident of northwestern Ontario can go down to Duluth, Minnesota, a 200-mile drive, buy lumber that was cut down in his own backyard, bring it back to Canada and, after all the duties and taxes are paid, find it cheaper, on a \$6,000 purchase in one instance. This is from a call that I received, and I receive lots of calls from people all across the province who tell me their stories or their small victories. This person, by paying \$6,000 for a pine door, or a number of doors, saved over \$1,100. This is after duties and taxes were paid on wood that was cut down in his own backyard, from his own forest.

Something must be wrong when a Canadian student can purchase Pierre Berton's books, the history of his own country, the history of Canada, for \$6.35 in the United States and \$8.54 in Canada.

Now we are in a major recession. We have unemployment seasonally unadjusted at 10.5% in this province. People are being laid off all the time. More Canadians are on social assistance than ever before in the history of our country. Again, these are data, but they are stark data and they tell a story. Behind each statistic is a human, a face. These people are fighting a war against rising prices and high taxes in the best way they know how. They do not hold meetings in secret. They do not need task forces and they do not need committee hearings to know that they can



get eggs for 39 cents a dozen in Buffalo, as opposed to \$1.29 here in Canada.

My office fields calls from Canadians every single day, telling me and my staff of their small victories, of being able to purchase eggs and soup and bread and groceries, just the bare essentials of life. These people are not heading down to Buffalo to buy frivolous items, although some do, but a lot of people are heading down there to buy the bare necessities, to feed, to clothe and to put fuel into their own automobiles.

These people are proud Canadians and it is wrong to point an accusatory finger at them and tell them that it is their fault the Canadian economy is in such poor shape. These people are not unpatriotic. They have really reached a threshold. They feel that they have been taxed too much, that prices are too high, and they are fighting back in the best way and the only way they know how. Rather than pointing an accusatory finger and condemning them, I give them credit.

Now the term "cross-border shopping" itself is really a misnomer. It has become synonymous with the people who, as I say, hop into their cars and head to Buffalo and load up on jeans and groceries and soda pop and all those types of items. But cross-border shopping is much wider than that. It is not really useful to focus on one minor part of cross-border shopping. I would be engaging in cross-border shopping if I headed off to Hong Kong or Europe and purchased items. I would be cross-border shopping if I were a Canadian land developer purchasing land in the United States. Robert Campeau was probably the best example of a cross-border shopper. Thank goodness for many in our retail sector perhaps, he was a cross-border shopper and did not buy a Canadian retailing concern.

1020

Should we be allowing our airlines to fly Canadians outside Canada to buy goods and services that they can buy here? Perhaps we should set up a government tribunal which would evaluate the usefulness of Canadians flying abroad. If their trip is not of any economic benefit to Canada, then perhaps we should not let them go.

In all these instances, money is leaving Canada. It is a form of cross-border shopping. So when we talk about cross-border shopping, we should include every facet and not just the single mother of two, or the family that heads out to Buffalo, or the family that crosses from Sault Ste Marie for the day to buy some groceries or some gasoline. That is wrong. What is considered shrewd for the Canadian businessman is considered to be unpatriotic for the ordinary Canadian, and I say that is wrong.

In my submission I put forth some statistics. For example, if a Canadian were to buy a condominium in Florida—I take the case of Boca Raton, for no particular reason. Take a \$250,000 condominium that a Canadian purchases in Florida. If we agree that \$150 is the average spent by a family or an individual across the border on any given shopping trip, this works out to about 1,700 such shopping trips until the amount spent in Buffalo equals the amount spent by the Canadian on his Florida condominium. With Robert Campeau spending \$7 billion on Federated Department

Stores a couple of years ago, this equals 46 million trips by Canadians.

Why the double standard? Why is it wrong for Canadians to shop in the United States, to engage in cross-border shopping to buy jeans, to buy a Walkman, to buy groceries to buy gasoline, yet it is right—and I am not saying that it is wrong—for business people to go and scour the country for bargains, for land deals and for things that really are not available to the ordinary Canadian?

A reason why a lot of Canadians are shopping in border communities is because they cannot believe the cost. They cannot believe that some goods that are made in Canada sell for less in the United States than they do here. We heard a couple of weeks ago, maybe it was last week, of some coffee filters that are made in Scarborough, Ontario, that sell for, I believe it was \$1.29 or \$1.59 here in Toronto and they were available for four for \$1 in Buffalo. Unfortunately, I do not have the name, but I have been told that by many people, that they have bought these coffee filters.

Unfortunately, as I say, I do not have the name of the filters, but I do have one particular item. It is a hand lotion called Complex 15. A friend of mine picked this up at Freddie's Pharmacy in Buffalo. It retails there for \$3.39. It is manufactured in Canada, and here in Toronto—I picked it up yesterday at two drugstores—it sells for \$10.99. With this sort of incident, people begin to feel they are being ripped off in Canada, and it makes Canadians determined more and more to shop in the United States. This is an issue that has to be dealt with.

I mentioned before that taxes are another big reason why Canadians are shopping in the United States. They feel that their threshold has been breached. Canadians accept that they have to pay taxes, they know that government provides them with wonderful social services, but they can take advantage of, but they also know that when taxes influence a person's purchasing decisions the taxes have gone too far, they are too intrusive into the lives of individuals. They feel that the way to fight back is to avoid paying the taxes, and to do so they are shopping in places like Buffalo.

Canadians also find that they get better service in US stores. They find the service is friendlier, the staff are more knowledgeable. I am sure I am not the only one who, when he walks into a department store here in Canada, finds it very difficult to get some sales help. Whenever I am in a department store and I want to make a purchase, when I want to find a sales person I just look behind the largest merchandise stand and no doubt I would find them there. But in the US stores, when you walk in they make you feel like you are at home. They want to give you a kind of assistance they possibly can and they are knowledgeable about their products. A lot of stores here in Canada do not provide that service. We had one of the members mention a couple of weeks ago that when he worked in a supermarket there was a lack of training provided.

In US stores there is a sort of corporate culture created. Trained staff are told to be friendly, staff are made knowledgeable of the products that they are selling, and consumers appreciate this. All of this is part of a consumer-driven



osophy that is really lacking in Canada but which we would work to develop here if we want to keep Canadian consumers shopping in our own country.

Another reason, I found, why Canadians are shopping: shopping has become a form of entertainment for a lot of people. They find that arts and sporting events have become much too expensive for them to enjoy at their leisure and so shopping has become an inexpensive substitute for these people. They find they can go out and spend the afternoon at the mall in what has become temporarily known as a period of bonding for the family. They can spend some time together. They do not have to purchase anything, but it is an opportunity to spend some time together. This is basically what the whole Sunday shopping issue is all about, but I do not want to get into that. It is a hole can of worms in itself.

Now, a figure that has been suggested as to sales lost to the Ontario economy is in the neighbourhood of \$1 billion. That seems to be an accepted figure. However, the figures are a bit misleading. Let me point out why I think they are. They are misleading because of a basic economic principle, and I get into this in my brief, but basically what I am saying is, rather than a principle of diminishing marginal utility, which is offered by economics 1 courses, I refer to the "Wow, I can't believe it's so cheap" principle. Basically what is behind this is that Canadians who go there and want to spend their disposable income find that because goods are cheap, they are willing to buy more items than they would normally have bought, because the goods are more expensive in Canada.

So if somebody were to go there, for example, to buy aluminum foil—I do not know what the price is here in Canada, but I would say it sells for \$1 a roll here and in Buffalo it sells for, let's say, 50 cents a roll. In Canada, when they go out and purchase it, the person who is in charge of purchasing this in the household would purchase perhaps two or three rolls, or as much as they need. When they go to Buffalo, however, because it is so inexpensive, they are willing to purchase more; so they have more utility, more use for goods, because they are less expensive than they find here. And because they will find more, the total basket value of their goods increases, and hence we get a larger number of total sales that are projected to be lost to the Ontario economy than really are.

Another reason why the \$1-billion figure has been offered is that there is more variety in the United States. People are buying goods there that are not available here. To say that \$1 billion is being spent in New York or in Michigan, in the Ontario border states—it is not necessarily true that the same \$1 billion would have been spent here, though I am not arguing that none of it would have been. Of course, probably a majority of that figure would have been, but we would have found other uses for the remaining amount of money.

Now, we have heard about the decrease in retail sales tax revenues and gasoline tax revenues. If we look at the treasurer's third-quarter report, we find that they are down by almost \$1 billion, but it does not show where exactly these revenues are down and in what communities they are down. Obviously people who live in Niagara Falls are

more inclined to purchase their gasoline across the border than is somebody who lives in North Bay or the farthest points of northern Ontario, but we do not know exactly where the figures are down and where they may be up. So it is misleading to suggest that merely because sales tax revenues are down, and gasoline and retail sales, that indeed they are down because of cross-border shopping. There are so many other reasons why, including recessionary pressures, declining consumer confidence due to the Persian Gulf war, energy conservation and, of course, cross-border shopping, I am not denying it. All these translate into lost sales tax and gasoline tax revenues.

### 1030

It has also been argued that department store sales are down across Canada. This too has been attributed to cross-border shopping. But if we look at communities that are not affected by cross-border shopping—take the provinces of Quebec, Manitoba, Alberta and Newfoundland, which is not affected by cross-border shopping one iota—we also find that retail sales are down. In fact, in some of these communities they are down more than they are in Ontario and British Columbia. By the same token, no one would suggest that because retail sales increased 1.5% from last month, there has been a decrease in cross-border shopping. So the argument works both ways.

Another figure that has been offered as to the popularity of cross-border shopping is the number of trips taken by Canadians, whether they be one day, two days, three days or whatever. These are raw figures and again they do not break down why these people are going across the border. They may be going across the border to visit Aunt Jean. They may be going across the border to go to school, to go to work. Not everyone is going across the border to shop. So to suggest that these people are merely shopping across the border, merely disposing of their hard-earned Canadian dollars in the United States, again is misleading.

Another suggestion as to how we can curb the phenomenon of cross-border shopping is to devalue the dollar. I do not want to get into this too much. For the sake of simplicity, I am just mentioning it. But I know that devaluation of the dollar involves very many repercussions. It may be advantageous to the business community if we had a lower dollar vis-à-vis the American, but again it certainly would not help those people who are least able to pay, because Canada, being a net importer of goods, would find itself in an inflationary spiral and the people who were least able to pay would be affected most by such an action.

We have a free trade agreement with the United States. We were told by our federal politicians and by advocates of free trade that we would enjoy lower prices. We were told to look beyond our national boundaries, to look beyond our local community, to reach out and go into the global marketplace. We should not be walking around with blinders on.

Ordinary Canadians have taken a lesson from the free trade agreement. Their minds were set for lower prices. We were promised lower prices. But lower prices were not forthcoming. So ordinary Canadians took a lesson from the advocates of free trade and they too are looking to the global market. It is merely a question of survival for these



Canadians. They want to survive, they want to be competitive, just like business wants to.

These are people who are looking beyond their local communities to survive, to purchase milk at 69... a half gallon. The bigger threat to the Canadian economy is not so much the drain, the leakage from Canadian shoppers heading across the border to buy a pair of jeans or a bag of milk; it is more from the high tech drain and from the brain drain. It is from companies like Northern Telecom, which jumped across the border into the United States with moneys that it got from Bell Canada's monopoly to set up research and development facilities in the United States and not in Canada. That is the real problem. That is where the haemorrhage is occurring. It is not occurring because Canadians are shopping across the border to buy a pair of jeans. I am not saying that this is not a problem. It certainly is and it creates a leakage of valuable money that we could probably use here. But it is not the only problem and it is funny that cross-border shopping has brought to light, really, the competitive problem faced by Canadians in the world economy.

Also what is ironic is that a lot of groups that appeared before this very standing committee, although the faces have changed and the names are different, three short years ago many of the same groups argued in favour of the free trade agreement. They said we need free trade to become competitive, we need free trade to look to the global marketplace, to force Canada to be streamlined, to be competitive in the world marketplace. Now these same groups appear before you when free trade is working for the consumer and they find that that these Canadians should not be taking in free trade and somehow are wrong.

Let me conclude by saying that we have been told nationalism no longer has any place in the global marketplace. Appeals to nationalism will no longer keep Canadians shopping at home. We were told by our federal politicians, by the advocates of free trade, to expect lower prices, to expect Canada to become more competitive. That did not happen, so Canadians are merely using free trade, using the tools that were given to them by the people who worked for the implementation of the free trade agreement that we now have in this country. They are now taking advantage of it, and somehow they are wrong.

Members of the committee, it is really a travesty that ordinary Canadians, who merely want the same privileges as the business community, are denied them. They want value for their money. It is merely an issue of survival. Thank you.

**The Chair:** Thank you. I have Mr Jamison, Mrs Sullivan, Mr Sutherland, Mr Hansen, Mr Ward, Mr Kwinter and Mr Phillips. If we could make these questions short and have one from each then perhaps we can get through the list a couple of times if we need to.

**Mr Jamison:** One question that I would like to ask at this point is, from your experience, what is the position of cross-border shopping in the United States retailers' minds? What is the US retailers' marketing strategy at this point? What are they doing in particular that is different or promoting in a greater sense the ongoing ability to attract

the Canadian consumer? What exactly are they doing in your opinion?

**Mr Adler:** I have a great deal of contact with a many retail outlets, particularly in the western New area; owners of shopping malls and stores and that sort of thing. They are very aggressive retailers. They know opportunity when they see it. They can see the trends, are very astute business people. They see the number of Canadians flooding down through the borders, over bridges to the United States, and every retailer down there wants a piece of the action. They all want a piece of the Canadian consumer pie.

There are various vehicles they have taken. They have taken advertising on TV, they have taken advertising in newspapers. There are a lot of newspapers in the southern Ontario area which take flyers from United States retailers. A lot of supermarkets send, I believe it is, 60,000 flyers into southern Ontario every week. Buffalo Bargains, a concept that I came up with, has offered these US retail outlets a more inexpensive way of reaching Canadian consumers, a more direct, sort of hard-core market group, market segment that they could take advantage of.

But to answer your question, United States retailers recognize a trend and they recognize a flow of Canadian consumers coming in. They do not want to miss out. In the Burlington, Vermont, area, for example, staff are trained to learn French to accommodate the Montreal consumer. A lot of the items available in the Burlington, Vermont, stores are brought in from Europe or manufactured in a European style because they know that the people of Montreal and people in Quebec prefer a more European style, as opposed to what is available in other places in the United States for Canadians to purchase. So they are accommodating, they are reaching out, they are attempting to find out what the consumers want and they are making a concerted effort to do so. You really have to give them credit.

But I may add that it is not totally restricted to US retailers. There are some Canadian companies that are also doing the same thing and we have to be fair. You know, we cannot just say that US retailers know what they are doing and Canadian retailers do not. There is one Canadian retailer who was mentioned in the Buffalo News last year. It is a family-run fur business in Fort Erie. "Each of us is fitted with the equipment for survival," the owner says. "We provide excellent service, knowledgeable staff, friendly and courteous service at reasonable prices and he is very successful in the Fort Erie area." He is attracting Americans. He is attracting Canadians.

1040

So it is having your finger on the pulse of consumers and exactly what they want, whether they be Canadian or American. There is no reason why Toronto retailers cannot attract Americans to come shop here. There is no reason why not. But the point is they should have their finger really on the pulse. Many retail analysts and marketing consultants are paid mega bucks to figure out how to do that. I am not in that business; I would, perhaps, have some solutions to the retailing situation here in Canada.



again, I am not in that business and I do not pretend to be an expert in the area.

**Mrs Sullivan:** Mr Adler, I find your presentation interesting. I am particularly interested in the fact that you have couched your view relating to the publication of *Buffalo Bargains* in the context of social good when in fact what we are really looking at here is a young, bright entrepreneur who has taken some risks to put together a publication that sells advertising to American retailers to reach the Canadian market. Social good may or may not have anything to do with it. I suspect that it had nothing to do with your original thinking about going into this. Your thinking was entrepreneurial.

You have, in the course of your presentation, indicated many of the competitive factors which have been placed before us in previous hearings of the committee: price, quality, variety, product knowledge, selection, entertainment and the aggressive marketing that the US retailer puts forward. I am going to ask you two questions about your publications and I may have to leave before you are completed—but I will look at the record—because I have to go to the House.

First of all, do you include in your Buffalo or other American publications an indication that there are differences in the products which are purchased; whether, for example, in white goods, there are CSA standards or energy efficiency levels, or whether there is a difference in warranties and so on. Do you provide that kind of information?

Second, I note that your economic analysis of the effect of cross-border shopping describes only impact on retail sales; you have assumed that the \$1-billion figure, which is accepted as the figure of the economic effect, is relating to retail sales. Indeed, that is not what that figure relates to. It relates to the entire economic effect of lost sales, closed stores, the manufacturing-distribution-marketing chain and its impact on revenues, not only gas tax, but on corporate and personal income tax, retail sales tax, and so on. So I agree with your argument about the impact on the economy.

The other thing that I was wondering was, in your shopping in Canada book, which I understand you also publish, do you take into account the competitive factors that you have named? Do you also sell ads to Canadian retailers through that publication, and where do you see the retailers who are included in the *Shopping in Canada* book in terms of their competitive situation with those who are included in your Buffalo book?

**Mr Hansen:** One question?

**Mr B. Ward:** A point of clarification, Mr Chairman: as that one question with three parts in it?

**Mrs Sullivan:** It was a well-rounded single question.

**The Chair:** If we all have questions like that, we will be here until 7 o'clock tonight.

**Mrs Sullivan:** Start with the last one first, maybe.

**Mr Adler:** Okay, that is what I was going to do. I was going to approach your one question from bottom to top. In terms of my Canadian publication, which is currently in the works, it has not been released yet, I have had a great deal of difficulty convincing Canadian retailers to come on

board and to demonstrate to Canadians and to others that this would be a good vehicle for them to advertise and to reach out to potential consumers.

The sell is unquestionably a lot easier in Buffalo. I have no difficulty whatsoever walking into a store, showing a retailer what I have—because nine times out of 10 they have heard of it, they have read about it in the newspapers, they have seen it on TV—and they are willing to go, first time around, an unknown commodity, with a half-page ad.

With the Canadian retailer, however, I find I have a much more difficult sell and a lot more of a salesmanship job to do. When you ask me to comment on why I have a much more difficult sell here, there are reasons perhaps to do with the recession, their advertising budgets are down. But recession is not really isolated to this area of North America; there is recession in Buffalo too, but the fact is that they recognize an opportunity in Buffalo whereas here they are a bit sluggish and a bit slow to come on board and take advantage of an opportunity.

So in terms of the competitive structure vis-à-vis Canadian retailers and American retailers, it is comparing apples to oranges. Because I am a sort of international marketer, I am an international company, I look globally, and I do not want to exclude the Canadian retailer from participating in what has proven to be a successful vehicle for getting a point across to a potential consumer.

The second point that Mrs Sullivan made was regarding warranties and CSA standards and the like. The fact is that a lot of items have international warranties. A lot do not; a lot cannot be serviced in Canada, and that is a problem. But again, when you buy a TV or a VCR across the border, how many of us really have real problems with a VCR that we purchase? It lasts four or five years and then we dispense with it and buy a new one, those of us who can.

That does not seem to be a concern for the Canadian consumer who shops in the United States. They are not questioning whether or not the goods are going to be covered by warranty or guarantee here in Canada when they bring it back and something goes wrong with it. In fact, a lot of retailers here, even though they should not be fixing it because of CSA standards, they are—and repair people have told me this—repairing goods that are made in the United States, and I know they should not be doing that and the like, but they are in fact doing it.

As for couching my presentation in social good, I do not have any less or more of a social conscience than any businessman perhaps. I am here providing a service for Canadians, and I am flattered that Mrs Sullivan thinks my book has created this massive groundswell of Canadians wanting to shop in the United States. I am flattered that she would say that, but I really cannot take all the credit for it. After all, it was our federal government that gave us free trade, that told us to look globally, told us to look beyond the local economic community, and that is essentially what I have done.

**Mr Sutherland:** First of all, I want to say it is a sad commentary on our society if shopping is a great family activity in this day and age. I have problems with the premises you are using to justify your argument. You have commented that it is cheap entertainment and that these



people cannot afford the other types of entertainment, whether it is sports, theatre, whatever. You have also said it is survival.

Granted, for those people who are going across the border and shopping for basic food items like milk and eggs and cheese, I can understand that. But if it is really survival, Mr Adler, how do you explain the fact that people are going over and buying VCRs and stereo systems? Surely those things are not for people concerned with survival, and we have already had evidence before this committee which indicates the higher your income, the more likely you are to do cross-border shopping. So I have problems with that.

You also mention that this is all consumer-driven. But are not these consumers who are going across the border also consumers of the health care system, community services, consumers of our better environmental standards, our better occupational health and safety standards? I guess what I am saying is, they are being selective about what they think they are being consumers about.

1050

**Mr Adler:** Absolutely. Thank you for that question. To deal with the first one, about the form of entertainment, why should it be a sad commentary on our society when people want to spend their leisure time shopping or window shopping? People have told me that they feel the government has become too intrusive into their lives and they should not be told whether or not they should be allowed to shop on Sunday. But again, it is not an issue I want to get into, it is an issue that should be dealt with perhaps by this committee at some other point, but I am not here to talk about Sunday shopping. It provides an inexpensive alternative for ordinary people to do something with an afternoon.

**Mr Sutherland:** But, if I may, you said, "And they may not buy anything." But all the stats prove that they are not just window shopping. There are actually people buying, and buying big-ticket items.

**Mr Adler:** Not everybody is buying big-ticket items. The only study that provides data that suggest that higher-income people are shopping in Buffalo is a study that was done for the Toronto area alone, not a study that was done for Niagara Falls. This study did not encompass Niagara Falls, did not encompass St Catharines or Welland or that area on the Niagara Peninsula. The study that you are referring to was a study done for the Toronto area alone.

I would agree with you that the people from Toronto who tend to go to Niagara Falls, because they are in that sort of echelon, that geographic area that was given to this committee before, sort of in the VCR-TV area where they would purchase items, perhaps they would go there to buy VCRs and higher-ticket items. But the people whom I have met, the people whom I have dealt with, the calls I get from people—I have not had any calls from people who are telling me that they are going down to buy fax machines, that they are going down to buy 40-inch colour television sets. People are telling me that they are buying milk, that they are buying cheese, that they are buying bread for four for a dollar. This is what people are buying.

Not everybody is going down to buy VCRs and television sets, contrary to your suggestion.

To deal with social services, yes, they do take advantage of social services, and they pay for their social services. These social services are not provided by the government free of charge. The money comes from the taxpayers. These people are paying for their social services.

Again, it is a double standard. Let's be fair to everybody. The Canadian businessman who sends his manufacturing operations overseas, that is also a loss of production capital that could be applied here in Canada, and as a Democrat you should be aware of that and you should know that and you should agree with that, as I see you

**Mr Sutherland:** I am.

**Mr Adler:** But let's be fair. You are all politicians, you are all supposed to take into account the consideration of all the people you serve, so let's be fair and let's put blame where blame is due, and not blame, like I say, the single mother of two who may want to go down to buy milk and vegetable soup to give to her children. Let's just be fair about the whole issue and not just take isolated cases. If you say that they are going down for VCRs, they are going down for luxury items, because of conspicuous consumption, in some cases they are, but in many cases they are not. I just be fair about it.

**Mr Hansen:** The single mother, I do not know whether she is on mother's allowance or not, but at least one thing we have here in Ontario, we do not hand out food stamps, we do not make people wait for handouts. It is quite a different living style here in Ontario. The provincial governments in the past and present are looking for a different standard of living there.

You talk about gas prices. There is no comparison between Ontario and, let's say, New York state where there are toll roads. A few years ago the last toll came out of Burlington, so when you drive from Toronto all the way down to the border there are no toll roads. I do not know if there is any toll road in Ontario. If we are talking gasoline prices, there is a difference in gasoline prices in those areas also.

I know you were talking about basic groceries, but I heard at the very beginning that they were all items that had sin taxes on them, that these products were not essential products; people were buying cigarettes and liquor and that.

**Mr Kwinter:** They are essential to a smoker.

**Mr Hansen:** Yes, that is correct. The other thing I heard had one person call me—and I live in the Niagara Peninsula also—who wanted to buy a gas stove. She checked with Consumers Gas, and they said, "Well, if you put this, this and this on, we'll hook it up, but if it doesn't have these safeguards, we're not hooking it up." By the time it was checked into safeguards, it was going to double the price of the gas stove. So what we are doing with our regulations is looking after her.

I do not know where you go to see your doctor, Buffalo or in Toronto. You say you are a Canadian, but I do not know where you are shopping on that. But the question is, you have no indication why there is a difference in the price of that, what was it, hand lotion, that you bought for \$3.35, which costs \$10 here? I think if you



to go back to the source of that other question, the  
ers that were made in Monte's riding—was it your  
ng?—you brought that up a while ago. Can you give  
any indication why there is a difference and where  
uld you rather live?

**Mr Adler:** I will deal with the last part first. Where  
uld I rather live? I have sat in on many of the hearings  
read all the transcripts of all the witnesses and what  
y have had to say, and what all the members have had  
ay, and I do not know of any witness so far who has  
n sort of personally attacked in such a way.

I am a Canadian. I choose to live in Canada. I am a  
businessman who is taking advantage of a free trade agree-  
ent that was implemented by our elected officials. I have  
en the advice of those people who have told me to look  
bally, I started an international company. I live here, I  
y taxes here, I pay income tax, I pay corporate tax. I pay  
the services that I reap. I see my doctor here in Canada.  
e I said, I pay my taxes like other Canadians who  
ose to live in Canada, they too pay their taxes and it is  
ong to call them unpatriotic merely because they are  
ng across the border to buy a pair of jeans or to buy a  
ve or whatever. It is wrong to call it unpatriotic.

Again, let's not have this double standard. Let's call it  
at it is. These Canadians are going across the border for  
vival. They are going across because our federal govern-  
nt gave us a free trade agreement. It told us to expect  
ver prices and yet these lower prices did not come. Peo-  
want value for their dollar. They want to stretch their  
ar as far as they can get it today. Why is that wrong for  
nadians to do that? You applaud a businessman for  
ing it. He is called shrewd, he is called a good business-  
n, yet when an ordinary Canadian consumer tries to do  
he is labelled unpatriotic and an accusatory finger is  
inted at him to say, "Who do you think pays for your  
cial services?" Canadians pay taxes and they accept the  
ct that they have to pay taxes, but what they are telling  
e is that their taxes are too high, they just cannot with-  
nd the tax burden they are under and that is why they  
e just seeking tax avoidance activities, which in this case  
ppens to be shopping in Buffalo, and there are other  
ays of doing it.

It was your party a few years ago which referred to  
orporate welfare bums and these corporations do not pay  
xes. Let's deal with what is fair and let's not point an  
cusatory finger at the ordinary Canadian for doing what he  
s to do or she has to do to survive. Let's just be fair again.

**Mr B. Ward:** I hope you do not interpret these ques-  
ons as personal attacks, Mr Adler. It is just trying to get  
idea of how you are thinking. The tone of your brief to  
e was that you more or less feel cross-border shopping is  
urt of the free enterprise system where freedom of choice  
ould be allowed, and I think you are the first one who  
as more or less taken that tone. Every other group has  
ggested we should be doing something as a government  
prevent cross-border shopping.

First of all, I appreciate you taking the time to present  
our brief. I think you are a smart individual. You recog-  
ized a business opportunity and took advantage of it and

we should encourage that. I am assuming that when your  
first book came out there was a lot of legwork on your part  
to get the advertisement dollars to pay for the book, to  
make it profitable. You probably wore out more than one  
pair of shoes in the process. That is something we should  
be encouraging, for young business people to take a risk in  
this province in an effort to turn a profit, because that is  
how you create wealth. So I have no problem with what  
you are doing from a business perspective.

There is no denying that cross-border shopping is having  
a devastating economic impact on the retail sectors of our  
border towns, Windsor, Sault Ste Marie, Niagara Falls,  
Fort Erie, Cornwall, and other small towns in between.  
When you drive through those areas—and I am not saying  
you travel throughout Ontario; probably your main focus  
would be Niagara Falls, possibly Fort Erie—and you see  
the impact that it is having on those particular retail sectors  
and the stores that are being forced to close—some are  
very long-term, family-operated retail stores forced to  
close because of the lack of consumer traffic and consumer  
spending in Ontario—are you suggesting that is just part of  
the free-enterprise system and government should not be  
attempting to implement policies to prevent it or intrude in  
that free-enterprise aspect of consumer choice, and that we  
should be writing off the retail sectors of the border towns?  
Or do you think that perhaps we should be doing something  
in a policy sense so that some of that consumer dollar stays  
in Ontario? Perhaps in the future you would be developing  
a book on Canadian bargains and selling it in America. I  
just want your feelings, your points of view on that.

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**Mr Adler:** I thank you very much for those comments  
and for applauding me for recognizing opportunity in the  
marketplace and taking advantage of it.

The fact that retailers and a lot of business establish-  
ments that have been in operation for many many years,  
particularly in the Niagara frontier, which is the area of the  
province I am most familiar with, have to close their doors  
because they cannot compete with the American retailer is  
a horrible thing. I hope I did not come across as a sort of  
proponent of Thatcherism, that we just leave everything open  
to the free market and free enterprise, total laissez-faire.

I do believe that rather than taking the suggestions of a  
lot of the groups who have appeared before this committee  
and others who have been involved in the issue—they all  
propose Band-Aid treatments. They have suggested im-  
posing a fee on Canadians heading across the border. They  
have suggested devaluing the dollar. There has been a  
plethora of what they call solutions to the problem, but  
those are not really solutions. They are not going to solve  
the problem of high prices, rising prices and high taxes in  
Canada. It is more, really. Canadians are avoiding high  
prices, but they are protesting at the same time. Canadians  
do not go into Toronto harbour and hop on a ship and  
throw tea overboard. We are not like that. We protest in  
silent ways, in other ways.

Yes, the problem with our retailing sector, the problem  
that we see with shopkeepers closing—when I drive to  
Buffalo, I do not just get on the Queen Elizabeth Way and



drive straight to Buffalo. I stop off in the Canadian communities, in the border cities on the Canadian side. I look around and I see the devastation and what is happening to a lot of these Canadian centres. It is a horrible thing. People who have been employed, people who have had businesses for years, find themselves out of work, and no future. These same retailers have called me. They do not blame me for what I have done by any means. They do not suggest what I have done is un-Canadian or wrong. Like you, they applaud me for my initiative. But they also tell me that they find they have no future in Canada because of government policy and the tax burden, the business environment they find themselves having to work in. They just cannot compete with American retailers on the other side.

I suggest to you, when you draw your conclusions and make recommendations to the Legislature from this committee on the issue of cross-border shopping, that suggestions are made that we do not apply Band-Aid treatments to this, because Canada is really in need of radical surgery. It does not need a tourniquet. There is a haemorrhage. I agree there is a haemorrhage occurring, but you cannot apply a Band-Aid to it. Canada needs radical surgery. You politicians, members of the committee, members of the Legislature, are all physicians. You are chosen by the people, you have asked for a mandate from the people, you have been given this mandate to perform radical surgery on Canada to make us more competitive, to solve the problem of cross-border shopping, to stop the outflow of massive amounts of Canadian dollars to US retailing outlets. Let's perform this surgery. Canada is the patient, you people are the physicians. Perform the surgery, make Canada competitive because, as I say, I am an international businessman, I own an international company. I am just as happy to write a book about getting bargains in Canada. My only problem with that is I wish it would be easier for me to attract Canadian retailers to advertise in my directory. As I said, I find it easy for US retailers to do so, but I would love to see Americans come up to Canada. I love to see Canadians go down to the US. It works both ways.

People have always travelled around the world and brought back goods, and Canadians have gone to other parts of the world. We want to attract people from other countries, it is a good thing. We learn from other cultures, we learn from other societies. Let us, as I say just perform that surgery and make Canada competitive and relieve us from that oppressive tax burden. Let the Canadian retailer compete on a level playing field, which was promised to us with the free trade agreement and by the advocates of free trade.

**The Chair:** I have three left: Mr Kwinter, Mr Phillips and Mr Sterling. In fairness to the next deputation, we should try and wrap this up within the next five minutes or so.

**Mr Kwinter:** Maybe we can get some information that might be useful to us on the distribution of your publication. One of the first things I would like to know is what does it mean by saying, "This is the official shopping and entertainment directory for western New York." Official, like sanctioned by whom?

**Mr Adler:** Sanctioned by all those Canadians went out and made it a Canadian best seller. This is the comprehensive shopping directory for—

**Mr Kwinter:** It is not official. I am not trying facetious, I just thought that maybe western New York said, "We are going to give you the authority to put this thing out," and this is the official shopping guide of western New York.

**Mr Adler:** No, that is not the case.

**Mr Kwinter:** This is your official buying guide?

**Mr Adler:** This is official, as deemed by the town of Niagara gave to it, and that has been sanctioned by the many Canadians who have made it a Canadian best seller. Just going back to the point, I did not seek the support of any chambers of commerce down there. I notified them of what I was doing, but I did not ask for any money from them or anything of that sort.

**Mr Kwinter:** No. As I say, I am not trying to be facetious, I just want to find out if this is being sanctioned by somebody.

**Mr Adler:** No.

**Mr Kwinter:** This is not something where organizations have said, "We want you to do this for us and we will consider this our official directory."

**Mr Adler:** No.

**Mr Kwinter:** Okay. The other thing I would like to know, the main part of the question, is do you have any idea, statistically, of the distribution of the people, thousands, or numbers, who are buying this book, where are they located?

**Mr Adler:** I receive the statements from the various booksellers and distributors, just to see, for my own interest, where the books are selling best. It varies. There are pockets. The sales are less in the Niagara Peninsula than they are in the Niagara Falls area, for example, or in the Stoney Creek area, say, from Stoney Creek east.

There is a very simple reason for that. The people who live in Niagara Falls and in Welland-St Catharines have been shopping for many, many years in the western New York area and they know, really, where to shop. They do not need to be told where to get a coat for half price, or whatever. They know where to go; they know where to buy their groceries. But because of the spread of cross-border shopping and the trend that I recognized because it was moving around the horseshoe—and this is borne out by the sales of the book—the book is selling much better in the northern half of Lake Ontario and the greater Toronto area and in the Hamilton and Burlington area than it is, really, in the area of the Niagara Peninsula. The hottest sales are coming from the greater Toronto area, in answer to your question, essentially.

**Mr Phillips:** I am trying to salvage some useful time out of this hour we have spent. I guess, first, the committee would reject one of your arguments, which is that this is not as big a problem as some people think. We think it is a big problem, and we are going to deal with it on that basis. Second, we all know that we have a competitive problem, so we appreciate the advice. I guess my own last observation on the question is that it is difficult, as you might appreciate



us to accept the objectivity of your advice because you have a major vested interest in the book.

**Mr Sterling:** My question is this: Assuming for a moment, if you would, that it is a big problem—an assumption which you do not accept, but which we believe—can you give us one suggestion on what we can be doing to help our Canadian retailers minimize the impact of cross-border shopping over the next two or three years, beyond improving service?

**Mr Adler:** First of all, Mr Phillips, I think it is unfortunate that you do not think the views of average and ordinary Canadians are useful to this committee. I really find that unfortunate. The fact that I do not have an objective viewpoint—I made it clear earlier that I am an international businessman whose international company provides shopping guides for Canadians to shop in the US, and am in the process of preparing a shopping guide for Americans to come shop here in Canada. Why should my objectivity be questioned, and that of other various interest groups that have appeared before this committee not be questioned? Again, it is very unfortunate that you attribute those motives to me.

To deal with your query on what I think Canadian retailers should be doing: As I said earlier, there are a lot of marketing analysts out there. You had one before you a short while back, I believe, who suggested what Canadian retailers could do to become more competitive. I know this committee thinks it is a serious problem, a serious issue to be dealt with. I think it is a serious issue to be dealt with; do many other Canadians out there. It is not fair to aim, with an elitist sort of attitude, that ordinary Canadians do not appreciate the fact that they have to haul down to Buffalo to buy their tomato soup or their loaves of bread or whatever.

But to suggest a possible solution to this problem which you perceive to be a problem for Canadian business, and I do agree it is a problem for them: Again, I am not a retail expert in the area. I do not want to suggest any possible solutions for the Canadian retailer. There are experts out there. You have had them before this committee. You have asked them these questions and they have made suggestions to you.

I am not here to present solutions to the Canadian retailer. It is not my area of expertise. My forte is what I have provided for you today, the information I have put before you. I suggest if you want possible solutions, that as a committee—I gather that at the end of this you will discuss and come up with certain recommendations which you will take to the Legislature and which will prove useful to the Canadian retailer. I have complete confidence in our abilities as elected officials, and in your taking into account all the recommendations and submissions that have been presented before this committee.

**Mr Sterling:** Is your publication weekly or bimonthly or monthly or—

**Mr Adler:** The title would suggest that it is annual, but the major revision is done yearly, and it is updated

every few months as I accumulate more coupons and advertising to offer to Canadians.

**Mr Sterling:** So you offer advertising, etc, and that is one of the major sources of revenue for you?

**Mr Adler:** Right.

**Mr Sterling:** I understand that if I wanted to start Toronto Bargains as an opposing magazine, if I wanted to promote Toronto stores, there would be a major difference in what the retailers would have to pay for their advertising. Is it correct that if an American store, for instance, advertises in your paper and they pay \$100 for an ad, they do not have to pay GST?

**Mr Adler:** That is correct.

**Mr Sterling:** But if I put out Toronto Bargains Directory and the retailer took out an ad for \$100, he would have to pay \$107, is that correct?

**Mr Adler:** That is correct.

**Mr Sterling:** Do you think that is fair?

**Mr Adler:** No, I do not.

**Mr Sterling:** So therefore you would suggest that this committee, assuming we are going to maintain the GST, recommend in our report that we tax American advertising where the major distribution is here in Canada?

**Mr Adler:** For American retailers to take out an ad in a book such as mine?

**Mr Sterling:** Yes.

**Mr Adler:** The suggestions that your committee makes are entirely up to you; I do not offer any possible suggestions that you can make to the Legislature. But as elected politicians, you have a responsibility to your electorate and to the people who have sent you here. How you set up the tax structure and payment and that sort of fee structure is entirely up to you.

**Mr Sterling:** But you would not consider it unfair if we taxed your publication 7% of the advertising revenue that you got from American sources?

**Mr Adler:** I work within the rules of the game, and if you people establish a rule that I have to remit taxes—

**Mr Sterling:** Okay. Thank you very much.

**The Chair:** Thank you, Mr Adler, for coming to the committee today.

#### CANADIAN SHOE RETAILERS' ASSOCIATION

**The Chair:** Our next presentation is by the Canadian Shoe Retailers' Association, Sharon Maloney, president.

**Ms Maloney:** Good morning, Mr Chairman and members of this committee. My name is Sharon Maloney. I am the president of the Canadian Shoe Retailers' Association. In that capacity, I am responsible for the overall operations of the association, including liaising with members of the footwear retail industry and representatives of all other sectors of the industry.

A significant portion of my responsibilities includes tracking general retail trends, speaking with members of the public about issues of concern to the industry, and dialoguing with footwear retailers on a variety of subjects which impact their businesses.



The Canadian Shoe Retailers' Association is a national trade association of the footwear retail industry. Our membership represents a national retail sales volume of \$183 million. Members are predominantly footwear-specific, and include family shoe chains, specialty chains, and owner-operated independent businesses. The majority of our membership trades in the women's footwear segment, which includes dress, casual, comfort, athletic and fashion. The Canadian Shoe Retailers' Association does not represent discounters, large department stores or athletic shoe stores. The largest portion of our members is located in Ontario, followed by western Canada and the Atlantic provinces.

The goal of the Canadian Shoe Retailers' Association is to promote the interests of the footwear industry and the Canadian consumer. Footwear in Canada has been subject to quota and anti-dumping duties for over 20 years. Footwear retailers have operated for less than two years in an environment where supply of product was not artificially controlled. The effect of quota on the retail trade has been dramatic. Those retailers who had quota were restricted in the amount of imported product they could provide for their customers. Those retailers who did not have quota, most often independents, were generally unable to obtain any, and were thereby severely disadvantaged in providing the type and range of footwear which their customers demanded. Moreover, the independent retailer was forced to compete against large chains and department stores for supply of domestic product. The regime thereby lessened competition for those participants already in the trade and effectively barred new entrants who could see no future if they were not able to obtain quota.

Market share by independent retailers consistently dropped from the initiation of the quota regime in 1978 to its removal in 1988. The quota regime also hurt retail trade in that Canadian consumers were forced to pay more for less choice and variety. As pointed out in the submission of the director of investigation and research under the then Combines Investigation Act, holders of quota were reluctant to use it to acquire cheaper types of footwear. This resulted in more expensive types of footwear being imported so as to properly utilize quota allocation. Scarcity of imported product also inflated the prices of footwear.

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The quota regime was dismantled in 1988, and by 1989, a dumping complaint was filed before the Canadian International Trade Tribunal against Brazil, China, Yugoslavia, Poland, Taiwan and Romania. Despite submissions from the retail community that the imposition of dumping duties would hurt consumers and therefore retailers and would force consumers to look elsewhere for their footwear, the CITT found in favour of the complainant. The result was the imposition of dumping duties ranging from 25% to 90%, depending on the subject country and product.

The advent of this finding posed immediate and dramatic problems for the footwear retail community and did little to sustain the existence of domestic suppliers other than to increase prices. Footwear retailers who had had a quota regime for over 20 years and who were just beginning to emerge into a more competitive environment were immediately stymied by this decision. They were presented

with four immediate problems: (1) increases in foot prices from sources upon which they relied; (2) additional administrative costs in locating new sources, both with and without the countries faced with dump charges; (3) unwillingness of traditional sources to deal with the headaches and costs created by the new regime; and (4) immediate differentials in price and product selection vis-à-vis their American counterparts.

All sectors of the industry were impacted by this. At least able to respond and the most vulnerable were independent retailers who did not have the buying clout to directly or get the attention of major Canadian importers.

For over 25 years, footwear retailers have not had the ability to compete because of market intervention based on the rationale that it will protect Canadian suppliers. In the meantime, Canadian suppliers, especially in women's casual footwear, are virtually non-existent and consumers are voicing their feet and shopping in the USA.

CSRA does not know how frequently footwear is brought across the border. Footwear is a commodity which is easily—and, we believe, frequently—transported. CSRA does not know:

1. Canadian footwear has a tariff of 22%; American footwear has a tariff of 10%.

2. Dumping duties are not enforced at the border and it is virtually impossible to identify where the footwear is made, what factory it is from, and therefore what duty it is subject to.

3. The free trade agreement is not a significant factor in that only 80% of the American footwear market is dominated by domestic product. That being said, there are so many American high-end producers in men's and ladies' footwear that have made significant inroads in the Canadian marketplace.

4. There are few, if any, low-end producers of Canadian casual footwear that can distinguish themselves vis-à-vis American products, be they imported or otherwise.

5. There are Canadian domestic producers of high-end and mid-priced ladies' shoes and boots that have brand recognition and can distinguish themselves in both the Canadian and American marketplaces. This, though, is a narrow field which may be further diminished because of high operating costs in Canada and lack of operational and consumer trend information for Canadian independent footwear retailers.

The following is a list of suggested actions:

1. The elimination of tariffs protecting those commodities in the footwear sector where there is nominal, if any, competition with Canadian producers—for example, athletic footwear.

2. The reduction to comparable American levels of tariffs in all other footwear sectors.

3. The review of the CITT decision as it relates to the impact on domestic suppliers, retailers and, more importantly, consumers.

4. Immediate implementation of collection of provincial sales tax at the border. Our communities can no longer afford to be caught in a battle of wills between the provincial and federal governments. We need action and we need it now.



6. The utilization of the existing requirement of an economic impact study in the province of Ontario upon the implementation of any provincial program which increases the regulatory burden on small businesses or consumers.

7. The finalization of any agreements between the United States, the federal and provincial governments prior to the implementation of border projects such as the Space Arch Customs Entry program. We understand that the PACE program was introduced prior to the sister program in the United States being implemented. Likewise, the PACE program was introduced prior to agreements being reached with the border states for collection of provincial sales tax in those jurisdictions.

8. The creation and implementation of a Shop Ontario/Shop Canada program which addresses our pluses rather than our minuses. Competition does not mean that we have to be the same. It does mean that we have to offer the Canadian customers perceived value for their hard-earned and diminishing dollars.

We must emphasize and deliver good service, good return policies, personalized service and better guarantees. This program must also emphasize that we are price-competitive when these items are brought into the equation, and also on a straight exchange basis, on a variety of commodities.

9. The recognition of every Canadian, including politicians, bureaucrats, retailers, consumers and workers, that we are all part of this problem. The issues we are facing go to the very heart of how this country has operated for over 100 years. We cannot hope to sustain the standard of living we have enjoyed, let alone the political will to act as a nation, if we continue to erode the tax base, increase the burden on those already paying and operate as if our individual decisions do not have an effect on the overall ability of our community to be competitive.

10. The Premier's Council for economic renewal should be seized with the responsibility of addressing the competitiveness of the province, with specific attention being paid to the issue of cross-border shopping.

11. The creation of a committee of provincial and federal ministries which are responsible for the issues impacting on cross-border shopping, including Revenue, Finance, the Ministry of Industry, Trade and Technology, and Industry, Science and Technology Canada. We cannot afford reactive measures such as the PACE program. What is required is proper strategic planning and co-ordination coming from the highest levels of our bureaucracies. To complement this initiative and/or form part of it, a similar committee should be composed, consisting of all three levels of government—federal, provincial and municipal—big business, labour and small business.

12. The provincial government should participate in the proposed expansion of the study, commissioned by STC and conducted by Ernst and Young, on the competitiveness of the retail sector. The first study is limited in nature, comparing a small number of commodities and not addressing issues such as taxation and regulatory burdens.

The current situation, especially for border communities, needs immediate action. Concrete steps must be taken to stem the tide of cross-border shopping. That being said, there are deep and substantive problems in our current

economic structure and process which must be addressed. In our view, the phenomenon of cross-border shopping is a reflection of a deeper malaise existing in the Canadian economy, that being a lack of competitiveness.

Canadian taxpayers/consumers are rightfully in the driver's seat on this issue. This trend can only be reversed by offering good value for money received. This equation must be operative, not just for the retail sector but for government as well. We urge you to recognize and accept the primacy of this statement and to act accordingly.

**Mr Sterling:** I would like to thank you, Ms Maloney. I think that is one of the most impressive briefs we have had presented to this committee, in terms of representing an interest, but also, in my view, in terms of looking at it in a realistic manner and presenting arguments which cover not only your sector but also many sectors.

**Ms Maloney:** Thank you.

**Mr Sterling:** I have a couple of brief questions. One is, I do not know what PACE is. What is it?

**Ms Maloney:** PACE is a program that the federal government introduced in Vancouver, the fast-paced program for crossing at the border in Vancouver.

**Mr Sterling:** Oh, I see.

**Mr Kwinter:** The express line.

**Ms Maloney:** The express line. That is right.

**Mr Sterling:** Okay. I just did not know what PACE meant.

**The Chair:** What acronym they were using.

**Mr Sterling:** Yes.

One of the suggestions that has been made by other groups deals with the collection of provincial sales tax and the ease with which that sales tax is collected. One of the suggestions, or one of the attractive options, is to harmonize the PST and the GST. Some of the footwear now is exempt from PST in Ontario. If there were a harmonization and that tax were put on—I am not even sure which shoes are exempt.

**Ms Maloney:** It is very small. It is only \$30 in Ontario.

**Mr Sterling:** Under \$30.

**Ms Maloney:** Yes.

**Mr Sterling:** It is not the first \$30, but it is under \$30?

**Ms Maloney:** Under \$30 it is tax-exempt, and thereafter it is subject to tax.

**Mr Sterling:** Would that have a significant effect on sales if there were harmonization?

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**Ms Maloney:** In my view, it would not. However, I recognize the problem in terms of the collection of taxes without harmonization. I think if harmonization were to be introduced, it would be introduced with the recognition that there should be an overall decrease in the combined tax, rather than combining the taxes and getting rid of all of the exemptions. I think it would be far more palatable, certainly, to our membership as well as to consumers, if it were addressed that way.



**Mr Sterling:** I do not know what the figures are on it, but I would expect that if harmonization took place and they added—I think there are two or three or four exemptions that were raised by the Minister of Revenue when she was here—you would not even really make up a point, though. I do not know if that is possible or not.

**Mr Kwinter:** I want to congratulate you on your presentation.

I think it is the first presentation we have had that really crystallizes the problem we are dealing with. It is quite interesting. We have an association arguing that Canadian manufacturers should not be protected as well as they are and that we should be allowing more imported goods to come into the country so we can compete. This, as I say, is a rather strange kind of presentation when we are looking at how we can protect our Canadian jobs and Canadian manufacturers. That is the problem. It is a realization that China, Yugoslavia, Brazil, Poland, Taiwan and Romania at least are producing shoes much more cheaply than we possibly can. Why are we denying our consumers the opportunity of buying these at the best prices for the sheer sake of protecting our Canadian manufacturers?

**Ms Maloney:** In a nutshell, yes.

**Mr Kwinter:** That, in a nutshell, is what it is. Here we are trying to do just the reverse. We are saying we cannot have these imported goods coming in. They are not being imported, but they are being carried by Canadian consumers walking across the border and importing them individually and we are saying this is not a good thing.

**Ms Maloney:** I think part of the difficulty has been, and it is not just in our sector, if you look at the sectors including footwear and apparel, which are more fashion-driven sectors, we have always worked on the assumption that we should be protecting our domestic suppliers. In our view, it is not that we do not want a domestic base here; we very much do want a domestic base and in fact I think it is one of the ways of addressing this problem. It is how you arrive at affording that protection. In our view, what steps have been taken are negative and really have not enhanced the opportunity and the ability to compete.

But I think it has been crystallized very clearly right now because Canadian consumers, and particularly women consumers, have been paying for this for 20 years and they have paid for it because they did not have any alternative. It is very clear to them now that they do have alternatives and they are operating on that assumption and exercising their right to find that alternative.

I do not believe we can stem that tide by making it more difficult for them to do that or by trying to protect a sector of the industry which, for whatever reasons, has not been able to address those marketing needs. That is not the way to find a solution to the problem.

**Mr Kwinter:** If I can just carry on for one more minute, what we have is a situation where in virtually every one of these cases we have low-wage countries turning out shoes in what is really a handicraft operation.

**Ms Maloney:** That is right.

**Mr Kwinter:** We are saying we should take advantage of that opportunity and forget about our industry because

we have labourers who demand too much money for those kinds of jobs where they can be done a lot cheaper somewhere else.

**Ms Maloney:** It depends on the sector you are dealing with, too, in terms of the domestic suppliers. Where the greatest gap has been created, really, is in women's casual shoes. We do have a healthy industry as far as boots are concerned and a very competitive industry, a tremendous competitive industry—well made, well designed. They have tremendous standards in terms of the product they produce and it is a more labour-intensive type of product as well, whereas ladies' footwear is not. I really do believe, in the nature of the economy and the standard of living we have in this country, that we are ever going to be able to produce a shoe as cheaply and as well as, say, Brazilians, the Chinese or the Taiwanese produce a shoe.

Again, it depends on the type of footwear you are talking about and that is another part of the problem. A lot of legislation, especially the dumping legislation and quota legislation, may be sufficient when you are dealing with ball bearings, but it is not sufficient when you are dealing with commodities as subject to subjective assessment as footwear is and clothing is. You cannot parcel out those countries and their ability to compete and their ability to be fashion-driven from the Canadian marketplace. Canadian consumers can see just by turning on their television what is available to them all over the world. If they cannot find it in their stores here, they will find it somewhere else. They are not going to buy it here just because they have it. They are going to wait and find it somewhere else.

**Mr Sutherland:** If I could just ask one question for clarification. I have not been familiar with your organization. You say that members are predominantly family shoe chain speciality chains, owner-operated. Are we talking about names like Naturalizer, Julia, Agnew, those types of stores?

**Ms Maloney:** That is right; all of those. The only people we do not include in our membership are department stores and very large discounters.

**Mr Sutherland:** Right. And there would be good odds that the owner of the shoe store in my small town is likely a member too?

**Ms Maloney:** That is right. Yes. In fact, our core membership for what I would call the true independent which is a single store, is located outside Toronto or outside the main centres and generally located in many of the communities we are talking about, smaller communities closer to the border where there has been a tradition of people supporting their local businesses.

**Mr Sutherland:** In the action plan, you talked about number 8 about what competition means and that we do not have to be the same. But you go on to say, "It does mean that we have to offer the Canadian customers perceived value for their hard-earned and diminishing dollars." I find it interesting that you used the word "perceived" because of the past presentation and some of the issues in terms of perception of what is real value across the border and what is not, whether it is the examples that Mr Hansen used about gas stoves or even shoe wear. I was wondering, do you feel that there is some problem with perception of



re, that people do not feel that Canadian shoes are of good value or that they are getting good value here, or are they just perceived to be of better value in the US?

**Ms Maloney:** Yes, I do. I think there are problems. I think that as an industry, especially in this type of commodity and in the apparel industry—and you are talking about the largest segment, which again is the ladies' sector—whatever reasons, I do not believe we have enhanced our image as well as we could as retailers. There are a lot of reasons for that. I think within the local communities, certainly with a large portion of our membership, they are being impacted to the same extent in some communities as in others because they have been able to maintain that relationship.

When you get into the larger communities and especially when you get into the border communities, it becomes more difficult, especially when you look at the fact that if you are a Canadian independent and you are buying brand name footwear and you have been using that to enhance your image with your customers, and they look across the border and see a \$60 difference, you run into a real problem there because you are not distinguishing yourself any more from your American counterpart, especially if what you are basing your distinguishing factors on was a particular product which is much cheaper there.

It is a combination of having a diversity of product that is somewhat different from what is being offered south of the border as well as having people perceive that when they pay X dollars, the product they get is going to give them some longevity, that there are guarantees in place and that they are going to be treated properly when they go back into the store and so on and so forth.

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**Mr B. Ward:** I will be brief. I appreciate your taking the time to give us this presentation. I think this picture could be taken two ways. The federal government probably, through the briefs from the organizations of shoe manufacturers, could have said that there would not have been an employee in the shoe manufacturing industry without the dumping duties. That could have been their argument. I am not here to debate that.

**Ms Maloney:** There are always two sides to every issue. I might say, though, that there are only about 6,000—

**Mr B. Ward:** Without a job, they could not afford to purchase a pair of shoes.

**Ms Maloney:** I agree with you, but I must say there are only 6,000 people in the supply side of the footwear industry.

**Mr B. Ward:** That was not my question, Mr Chairman. That was a comment. I am not saying what the federal government did was right or wrong. I would like to focus on the suggestion that the PST be collected at the border.

It is my understanding that your organization has no problem with the PST being expanded to all shoes. I thought I heard you say there are currently some exemptions and you felt it would not add that much to the cost if the PST were expanded into the areas that are currently being exempted.

**Ms Maloney:** With a very important caveat, which was that there be an overall reduction in the combined retail sales tax and GST.

**Mr B. Ward:** Yes. Is your focus—because I would not want to suggest that the PST be expanded into areas of exemption if the GST is a temporary tax and will be modified in the future, depending on the will of the Canadian electorate—that this committee should be making recommendations to the government to explore all avenues of how the PST can be collected at the border, of which harmonization of tax would be just one?

**Ms Maloney:** Certainly.

**Mr B. Ward:** Because we would not want to enter into areas of exemption of the PST—I do not think that is what you are saying—unless the harmonization aspect is one. But you would not necessarily agree that the PST should be extended to the exemption areas; the prime focus is that the PST should be collected at the border and all avenues of how it is collected should be explored.

**Ms Maloney:** Absolutely. We are not saying the only avenue is harmonization. What we are saying is, we do understand some of the difficulties, given the fact that we are talking about a national program with the GST, and if you do have harmonization, you are most probably looking at harmonization for 10 different jurisdictions. So we understand that there can be difficulties because every jurisdiction has different exemptions. That being said, we are also of the view that there is the capacity to implement collection of the PST with exemptions, not having to go through a complete rationalization or harmonization of the program.

**Mr B. Ward:** Are you suggesting that should be explored very strenuously, to collect the PST at the border?

**Ms Maloney:** That is right.

**Mr B. Ward:** Okay. I wanted to make sure that was clear in my mind.

**Mr Sterling:** This is sort of a supplementary coming out of some of the other questions, and you partially answered it when you were responding to Mr Ward. You mentioned that there were about 6,000 people in the supply side of the shoe industry, and I had a brief discussion with one of my colleagues, Mr Kwinter here. We were talking about Thomas Bata, who is a native Ontarian and the largest shoe manufacturer in the world, and why we cannot compete when we have the entrepreneur of all entrepreneurs within our own province.

I guess the problem relates to the high labour content associated with shoe making; it can only be automated to a certain level. So I guess the extension of the argument is that we do not want those jobs in the bottom line because if they are high labour content we are never going to be able to justify a high hourly wage for the people in those jobs.

If we took your brief and said, "Okay, we agree with everything you have put forward," so that the marginal manufacturers would drop off, what would it go to, in your estimation, from 6,000 people on the supply side?

**Ms Maloney:** Down to?



**Mr Sterling:** Yes. You talked about the boot industry being very strong and being able to compete. They have found a niche in the market.

**Ms Maloney:** I very much think it would not be that dramatic, because the figures I am quoting were made available to us at the time of the dumping complaint. I hate to take figures out of a hat but I think you might be looking at a 25% drop in employees, because what is emerging is that, as the stronger suppliers are becoming more aggressive and going into the United States and being more focused in what it is they are producing, they are in fact expanding. They are picking up some of the smaller organizations that have failed and expanding their base and their ability to compete by doing that.

So what is occurring is a rationalization within the supply industry to be competitive in this—I hate to use the word—global environment that we are operating in.

**Mr Sterling:** One other brief question, if I can. I have been reading some articles on competitiveness in the *Globe and Mail* this week, in the business section. Some of them are pretty good. One of them relates to the levels of distribution. Are there too many levels of distribution in your industry?

**Ms Maloney:** It is interesting. If you compare the Canadian marketplace with the American marketplace, I think one of the most staggering items to me is that the shoe industry is considered among the top five major industries in the United States, whereas you cannot say that in Canada.

In the United States, certainly because of the size of the market they have, there are a number of very, very large retailers who are able to source directly from offshore manufacturers as well as domestic manufacturers. Therefore there is a relatively smaller wholesale industry in the United States, whereas in Canada we do have, not a large import or wholesale community, in terms of numbers, but a stronger wholesale community operating here, which of course adds to the cost.

There is always the possibility that American exporters could come into the Canadian market and pass on to independents the economies of scale in their purchasing power when they purchase offshore. Their suppliers are not interested in the Canadian marketplace. They are interested in the American marketplace and we are secondary. We are fitted in as is necessary.

With the intrusion of dumping duties, those exporters find it really quite difficult to come into the Canadian market. They do not want to have to deal with the issues and the problems that they are faced with at the Canadian border. So there is an opportunity which could be made available to Canadian retailers but which they really cannot take advantage of because of the dumping duty regime that is in place.

**Mr Sterling:** I am sorry; another question has sprung to mind. If I import a pair of shoes into Canada from the United States, what is the duty now?

**Ms Maloney:** It depends. If you are bringing in a shoe that is—

**Mr Sterling:** It was made in the United States.

**Ms Maloney:** If it meets the requirements of O there is a graduating diminishment of the tariff. I am sure what rate it is at now, but it diminishes, so you are subject to the tariff. But what has happened, interesting enough, is that a number of American producers make the main body of the shoe, the upper, and they make it domestically in the United States; then they may take that and ship it to Mexico to have stitching done on it. Immediately the opinion is formed at our border, "This no longer qualifies as being an American product and therefore subject to the diminishment of tariffs," and retailers are immediately hit with severe dump charges or increased tariff on the product.

So the problem with the footwear industry, much like the apparel industry, is that it is not something where the complete product is made in one region or part of a region. Different parts may be made all over the world and cannot stop that kind of migration of product.

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**Mr Sterling:** Of the 6,000 jobs, how many are in Ontario?

**Ms Maloney:** I would say probably half, a little bit less than half. It is really split between Quebec and Ontario.

**Mr Sutherland:** I want to come back to the issue of retailing, because we have heard several presenters talk about the reasons people are going across, that they do not get as good service or the staff are not as knowledgeable. I was wondering if you could give us some indication of the amount of money that is spent on training staff, on making sure they are knowledgeable, and on customer relations and customer service, and then maybe a little more in terms of what support you provide in terms of retail incentives and initiatives.

**Ms Maloney:** Let me start with the latter part of your question first. We do provide training. We are in fact the only group that has a product knowledge program available to footwear retailers. As well, we provide a sales training program, which we have been able to secure from the United States, as a matter of fact, for distribution to our members.

The first part of your question is difficult. In my view there is not sufficient training happening.

**Mr Sutherland:** If I could just ask, the product knowledge thing, is that solely for the managers of the stores or is that for salespeople as well?

**Ms Maloney:** No, it is for everybody. In my estimation there is not sufficient training going on in these industries and I think there is a variety of reasons. For example, we do not in this country, let alone in this province, have access to what I would describe as good, solid consumer trend information. We used to have that. Unfortunately, the federal agency that was running it decided it was no longer appropriate, for a variety of reasons. I suppose one of the reasons was that it was not being embraced as quickly as they would have liked. The result is that large segments of our community are not obtaining Canadian consumer trend information. That is significant, because if you are going to market yourself you should know what the trends are.



Second, there is no operational survey of the Canadian footwear industry. We are in the process of trying to create such a survey so that people can compare what their margins are and their operating costs and so on and so forth.

Third, there is not really too much opportunity for these people to take advantage of training because usually they are sole operators and there may be one or two people in the stores, so they are very reluctant to go to a seminar. What they need really are programs, either audiovisual or people who come into their stores, to give them training. I think programs which were made to address the particular needs of that community would certainly be very well received and would be very successful and helpful, because I think there are skills in selling and customer service that have been neglected.

**Mr Sutherland:** If I may just ask—and you may not be the appropriate person, but I am sure you deal with other sections of retailing—about the comment you made about consumer trend information; and I believe you are the first one to make that comment. From your relations with these other organizations, what would your sense be of how that fits retailing in general; do retailers in general seem to have enough consumer trend information, or quickly enough, to respond?

**Ms Maloney:** No, in my view they do not. I think they are not trained sufficiently even to do their own surveying. I have to commend MITT on the strategy report it prepared and made available to retailers. That kind of information, with the skills it provided to people so that they

could actually read it and take some steps, was very, very positive, because generally that information is not available, certainly, to the independent community. The larger operators, larger retailers have access to that information, but generally it is not available. There is very little consumer trend information. As far as I know, there has never been a focus group. In fact, we are probably going to be the first organization that does a focus group on footwear and why people buy footwear. Generally that information is just not available.

**Ms M. Ward:** You represent small independent retailers. On the other side of the border—

**The Chair:** Excuse me, we have a 5-minute bell for a vote in the House.

Can you ask your question very quickly?

**Ms M. Ward:** How do they compare? Are those large department stores that people are going to shop at as opposed to small retailers on the other side?

**Ms Maloney:** Yes. In fact, there are real differences in the product that they are selling as well. In most cases, I do not think the product is as high-quality as is being sold in the border communities, but they are traditionally from larger stores and malls as opposed to sole operators on street locations.

**The Chair:** This is called abruptly. We have to go to the House for a vote. Thank you for your presentation. It is very helpful.

The committee recessed at 1156.

## AFTERNOON SITTING

The committee resumed at 1540.

**The Chair:** As we begin this afternoon's proceedings, we do not have any members from the Liberal Party, but I am sure they will show up. We do have a quorum.

## LIQUOR CONTROL BOARD OF ONTARIO

**The Chair:** I would like to begin the afternoon with the Liquor Control Board of Ontario, Andy Brandt, chairman and chief executive officer. Welcome, Mr Brandt. I have a hint that you might understand how this works.

**Mr Brandt:** Thank you very much, Mr Chairman. I know if I have any difficulties procedurally, you are there to help me every step of the way. I want you to know that I am delighted to be here and be back in a place that I called home for a great many years. So I am looking forward to having an opportunity to address the committee.

Is it appropriate that I begin at this time? I am extending my hand, looking for some assistance at this early point. If you would like me to begin, I can so do.

**The Chair:** Yes, I would like you to begin. We are just going to turn down the House monitor so that we do not have any distractions.

**Mr Brandt:** I have never allowed legislative debates to interfere with my line of thought in the past. I do not know why it should happen now.

**The Chair:** Perhaps some of the members in the gallery have not trained their thought processes as diligently as you have.

**Mr Brandt:** If I might, with the permission of the Chairman and the committee, I would like to introduce some members of the LCBO staff who are here with me as well. Cheryl Parry, who is the executive assistant to my office and as well serves in the capacity of secretary to the board of directors of the LCBO; Mark Synnott, vice-president of finance and administration; Rob Dutton, who is director of economic policy and planning and works directly with Mr Synnott's staff. Chris Layton, who is with our press and media department at the LCBO, is with us as well.

With just a couple of brief opening remarks I would like to get into my presentation, and certainly will leave more than adequate time for all the members of the committee to address any questions they wish, either to myself or to members of the staff.

I am delighted to have the opportunity to address what is an extremely important and critical economic issue for the people of this province. I will not be dealing with the issue in a global sense—although all of us, I know, have views on it—but more specifically the impact of cross-border shopping on the liquor control board, and by extension, on the province of Ontario.

It is an issue that is a very personal one in many respects to me, as it is to many members of this committee, because I come from a border community. I have eyewitness accounts really of the impact of cross-border shopping virtually every time I go back home. So it is a problem that has impacted very severely on my community, on most

border communities throughout the province and certainly, by extension, inland communities.

If I might set the stage and give you some statistics will not bore you with a lot of them. But in 1986, average, 1.7 cents of every consumer dollar or every dollar of household spending was spent on beverage alcohol, the type that is sold by the liquor control board, either in a store or at a licensed outlet, a hotel, a restaurant or a legally appropriately licensed outlet that sells alcoholic beverages. What that 1.7 cents out of every dollar translates into in terms of impact on the province is a total revenue of \$1.7 billion, of which in the range of a third, or specifically some \$650 million, is transferred to the Treasury of the province of Ontario.

Now, let me put that in some perspective for the members of the Legislature, many of whom I know are new to the provincial Legislature. The \$650 million is in excess of the total transfer of revenue from all of the lottery funding to the province, which is something in the range of about \$500 million. So it is considerably below what the LCBO transfers, and I think if you take a look at other items in the budget like land transfer taxes, you will see that the \$650 million is again a figure that is well in excess of some other very substantial revenue items and ones of great importance to the province. Mr Laughren, the Treasurer of Ontario.

Now I know that a number of other organizations have appeared to give this committee some indication of the rather critical and devastating effects of cross-border shopping on their business or their specific area of activity. The message I have is somewhat different from the standpoint of the analysis we have taken at the liquor control board.

The impact of cross-border shopping on the LCBO has not been nearly as great as it has on other retailers, and I would like to point out during the course of my remarks why that is so. Beverage alcohol sales generally have been declining, going down over the past couple of years, for a variety of reasons. Some of those reasons include changing social attitudes among the people of this province, many of whom are turning away from distilled spirits to light alcohol products, or are reforming entirely and not using alcohol products of any kind. Drinking and driving measures that have been introduced by the province of Ontario today and over the course of the past number of years have persuaded people not to indulge in alcohol beverages when they are driving, and price also is a factor. The price of alcoholic beverages in this province and generally throughout Canada is relatively high compared with the competition south of the border.

Now overall, that decline, for a number of reasons—and perhaps more recently we could throw in the current recession that we are experiencing in the province—has resulted last year in a net decline of sales of some 3%. It is an important figure because I want to pick up the impact on cross-border shopping in just a moment.

Three per cent is the global number, the total of lost revenue to the province for a series of reasons. We can all make certain guesses as to what those reasons might be.



I have given you some for your consideration. However, in border communities, and we have analysed the border communities in a very specific and detailed way to determine what the impact of cross-border shopping at the moment, we find that decline to be only slightly higher at 4%.

So to put the figures into perspective again, Mr Chairman, 3% across the province and 4%, somewhat more intense and a more rapid decline, in border communities.

We are finding, however, that in those same border communities there are again a series of problems that are causing a difficulty with respect to those communities. As an example, the recent shutdowns in Windsor have impacted very directly on the economy of that community. The Algoma situation in Sault Ste Marie, another border community, is the same kind of thing. There were closings of Fiberglas and Holmes Foundry in my own community, in an economic downturn in a border community. And if you look at the border communities there seems to be, aside from cross-border shopping, a more sharp decline in economic activity than in some of the inland communities. Now you can get into trouble with generalizations, but it seems to be one of the things that came out as a result of our study.

To provide a little perspective on how large border communities are in terms of the study that we took, the cross-border shopping area, which is the catchment area closest in to the US border, represents about 10% of all of our stores. There are 622 LCBO stores in Ontario, so for purposes of coming to a number with respect to the border communities, they would number something in the range of about 60 stores. They also account for about seven and a half per cent of the gross sales of that \$2 billion I mentioned earlier that is marketed by the Liquor Control Board of Ontario.

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Now, why are we here? I mean, if our problem is a 1% problem effectively, you have looked at our sales, they are down slightly, what is the purpose in the LCBO coming to make a presentation to you—and I assure you, it is not to waste your time, sir.

What we are finding is that there is an accelerated loss starting to set in. In many of the communities where the present numbers are not critical or devastating, there appears to be a trend line which, if projected outward to 1991-92, 1992-93, would seem to point to a continuing erosion of sales in some of these communities that are already being minimally impacted and will appear to be impacted in a much more major way in the not-too-distant future.

For example, in the Niagara region five years ago sales were growing at a rate of about 4.5% over the previous year. That was compounded and that growth was fairly predictable on a year-to-year basis. If you compare that with 1990-91, the sales in that same Niagara region have declined by some 5%. That is not in conflict with the other numbers that I mentioned, the 3% across the province, 4% in border communities. This community is a little more heavily hit, in that the decline there is 5%, and that could be attributable, certainly attributable in part, to cross-border shopping.

But I think it is attributable as well to the fact that there is rather intense advertising going on out of New York state, which is flooding that geographic area in a much more competitive way than perhaps other parts of the province.

However, in the Niagara region, this is the third consecutive year that we have witnessed a decline in sales in that particular market. In my own area, the Windsor-Sarnia area, a similar situation has occurred. The sales, which increased slightly based on the demographics of the area and natural population increases, those sales have declined in 1990-91 by close to 7%. So you can see there is an erosion occurring, and that erosion, as I said—and excuse me for repeating myself—appears to be accelerating.

The LCBO, in an attempt to provide you with some information that would be helpful, looked at a couple of examples in order to come to a very specific determination as to whether or not cross-border sales were really the fault of this declining situation. What we did was compare a couple of communities in Ontario, a border community of approximately the same population as a more inland community. One of the first ones we took, for no apparent reason, was Sarnia and Peterborough. In taking Sarnia and Peterborough, we took a community that was on the border, impacted by US sales, and a community like Peterborough, which is some distance from the US border and would likely be less impacted.

Within the last two years, Sarnia has begun for the first time to trail Peterborough in LCBO sales. In the last fiscal year, both areas recorded drops in sales, again our overall decline being 3%, so Peterborough was impacted by that. The difference is that while Peterborough fell only 2%, Sarnia went down by about 7.5%. So you can take those two communities as an example of where that accelerating process seems to be taking hold.

Two other communities that we looked at were Sudbury and St Catharines, again attempting to come to a comparison that would be reasonable, and communities that were approximately the same size.

For the last three years, while Sudbury was showing growth in 1988-89, which was as high as 6.5% in increased sales, St Catharines has been declining by roughly 2.5%, 4%, and about 4.5% over the last three years. Again, a very direct indication that cross-border shopping is starting to impact on areas like Sarnia, St Catharines, and other border communities.

I would like to mention as well for your information that Brewers' Retail sales are being impacted far more dramatically than sales at the liquor control board. The magnitude of loss and declines at the Brewers' Retail is in the range of some 12% to 15%, so it is much larger than the decline that I mentioned earlier, before Mr Kwinter arrived, namely some 3%.

If you contrast the difference between Brewers' Retail and the LCBO, you will find, if you refer to the Ernst and Young study on cross-border shopping, that the purchase of an LCBO product or a distilled spirit product is relatively well down the list as an item that people cross the border to search out. At the top of the list in the Ernst & Young study was gasoline and second came groceries and then following groceries came clothing, and the fourth or



fifth item down the list representing the actual product that people went to shop for, and that was about a 4% factor I think, was a product that would be handled by the LCBO. So that is one of the reasons why I do not believe our sales are impacted nearly as critically as department stores, grocery stores, Brewers' Retail, gasoline retail outlets, because their products seem to be higher up on the popularity list for purposes of cross-border shopping than is the case with the LCBO.

The other factor is that for years the Ontario public has become rather accustomed to the fact that our prices are higher than they are in the United States. This is not some factor which has come into play in the last year or the last two years or in the last half a dozen years. Traditionally our prices have been higher in Ontario because we have taken an attitude that in order to keep a semblance of control on the question of social responsibility as it relates to the consumption of alcohol products, price was a key factor. If you made the product really cheap, it would encourage some people to drink considerably more. So price was a balancing factor and always has been, I believe, with all parties in this Legislature, irrespective of their political stripe, because the belief was that it was an important element in terms of our social responsibility as legislators.

The second item that is important with respect to the difference in price is the fact that the Ontario public has historically and traditionally received a great deal of benefit from that \$650 million in transfers to the provincial Treasury that is not realized, obviously, by the American consumer or by the American citizen, namely our health services, our community and social services. A whole host of educational services are provided as a result of that \$650 million being available. Obviously the downside is that there are some people who will make a decision to take advantage of a price in the United States, forgetting completely about the fact that our tax structure is such that we build in a lot of programs that we offer to people and that does result in a product being slightly higher. I will refer to a few specific products because I think it is important that we have those as well.

Over the course of the past few years, however, since this question of cross-border shopping has become somewhat more critical and obviously has intensified rather dramatically as an item for concern by the members of the assembly, it is interesting to note that there has actually been a slight reduction in the gap between the price charged in the United States and the price charged in Ontario. In other words, the differential—and I am not going to try to convince you it is dramatic, it is very small, but a very noticeable decline in the difference between the price you pay over there and the price you would pay here in our own jurisdiction. What I am saying is that it is not as a result of galloping price increases on the part of the government of Ontario and/or the LCBO that is causing people to buy in another jurisdiction. In fact, it is more of an incentive for them to come back home again and buy here, because our price difference is slightly smaller than it was.

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If you were to take our most competitive products, by and large they would be the premium brands. In the premium

brands of the LCBO product lines, we are rather competitive with the United States. As an example, and not with intent of advertising a particular product, a Scotch by name of Johnnie Walker Red Label in a one-litre container would sell in the United States between a low of \$23.80 and a high of \$28.31. Those are translated into Canadian dollars and those are in various US border cities. The same product at the LCBO in Ontario sells for \$28.53. I think argue that is a competitive price. Although we are slightly higher it is not so dramatic that it would encourage someone to cross the border.

Here is where we have a bit of a problem. That is lower-priced products like Smirnoff vodka, not that anyone would be familiar with that particular product, but mention it only in passing because you may have seen it on a shelf somewhere. Our prices are not nearly as competitive. The US price ranges from a low of \$12.80 to about \$15. The Ontario price is \$24.33.

Again, the position taken by Ontario is that whether it is a bottle of Scotch, a bottle of vodka, a bottle of rum, looking at it from the standpoint of attempting to bring about an attitude of social responsibility in alcohol consumption in this province, we do not want to deeply discount a product which will encourage overconsumption of a vodka product, so our vodka is priced at approximately the same price as the Scotches.

Let me move on quickly here, because I know you want to get to some questions. The current loss situation, to put it into perspective, is important to us, although not critical. What is critical, however, if left unchecked and the growth continues, as some observers have suggested with respect to cross-border shopping and if these revenue losses continue—it could become much more significant.

I know there have been some comments made and certainly some very critical observations have been offered with respect to the GST. I want to say that the federal GST is revenue-neutral, price-neutral in so far as liquor products are concerned. It had no impact on our business. I know it had considerable impact on other products that one might purchase, but it in some instances provided even a slight price reduction in some beverage alcohol products.

In the Ernst and Young study that I mentioned earlier, one of the findings was that some 36% of the respondents shopping dollars was spent on gasoline, which was the number one sort of attraction in going south of the border. Some 68% indicated that the variance in gas prices was the chief reason that they had—I mean, more than two thirds of all the people who crossed the border have indicated that gas prices were the main reason they went over there. Now, the reason that a lot of liquor purchases are not being made in the United States, based on our best information, that it is an ancillary purchase, it is not the main purchase. It is fourth or fifth down the list of reasons why a person crosses the bridge or goes through a tunnel to go over to the United States. So again, although it seems to be increasing, it is not increasing dramatically as yet.

Let me give you some ideas as to what might be done with respect to the liquor control board and from, obviously, our vantage point in this entire debate as to how we think



ne of this erosion could be stopped. One of the things we could do, obviously, is reduce prices.

If we reduced prices and if we were more competitive if we cut back on the amount of money that was transferred to the provincial Treasury, that would have a significant impact on any sales that were being made north of the border, but I want to caution you that in so doing, it has a very dramatic impact on the Treasurer's revenue base. It would erode substantially the \$650 million that the Treasurer anticipates receiving from the liquor control board and there would in all probability be an erosion of certain programs like health, education and other programs that are paid for at least in part from dollars which are generated through the liquor control board.

We could continue, as a second alternative, to pursue liquor control board retailing initiatives. For the benefit of the members of the committee, I would like to refer to the Chairman's own riding, where we recently opened a new store which I would hope the Chairman would agree is a very attractive, modern, entirely different kind of merchandising concept in the liquor control board from what we have used before. It is not an irresponsible method of merchandising liquid refreshments, but in fact provides better consumer services. Our modernized stores include such things as trained, knowledgeable staff, a wider choice of products and, I might add, something that we should all be very proud of: the world's most exacting quality control standards. We are looked upon in the laboratories at the liquor control board as being the leader, certainly across Canada and by many US jurisdictions as well, as the jurisdiction that keeps a very tight control on the quality of the products that we allow for sale within our operations.

One of the areas that I have felt for some years could be improved upon in order to make a considerable difference with respect to the erosion of some of our retail dollars into the US market is for some improvement in customs enforcement. If we could encourage the federal government, as an example, to do one thing—to collect provincial sales taxes at the US border—if a deal could be made between the Minister of Revenue of Ontario and Jim Jelinek at the federal level, and if he could just ask, without adding more staff, without any administrative changes that would be dramatic or would be particularly costly, if they would simply collect the applicable 8% provincial sales tax on items that are simply being waived at the moment, a couple of things would happen.

Number one, the people would quickly come to an understanding of what the true cost of that purchase really is, because they are in fact evading taxes by not paying the 8%. By the way, you are supposed to pay the 8% on a voluntary basis, and I could ask for a show of hands by any of you who know of any volunteers who have paid that 8%. Well, I know that you would, Mr Sterling. I was not speaking on a personal basis but rather on—

**The Chair:** Most of the members of this committee do not shop in the United States.

**Mr Brandt:** At least over the course of the last few weeks.

Some enforcement improvements and/or collection combined with that of the provincial sales tax, in my view, would help us recoup some of our lost revenues. More specifically, it would help the provincial Treasurer, because those revenues would be directed to sources obviously that he is in need of.

We could begin a more aggressive marketing strategy to encourage US shoppers to come north, to purchase from the liquor control board, by comparing some of our very competitive prices—and we are competitive, as I showed you, in certain lines. But we also happen to have premium products and a far wider range of products than American stores normally carry.

Those were a couple of ideas that I wanted to throw out for your consideration, Mr Chairman.

In closing, let me just say that Ontarians must come to understand that the money that we raise from the LCBO goes to pay for some very critical services, which you as legislators and we as the Ontario public at times take for granted, benefits that flow directly to our communities and the activities that are paid for as a result of revenues generated by the liquor control board. That \$650-million net transfer is a significant amount of money. It is one of the largest sources of outside revenue which comes directly to the provincial Treasurer.

So I would just say to this committee that we are concerned about the current erosion. We are more concerned about what we see to be a growth or an acceleration of that erosion, and we think it can be at least slowed down, if not stopped, if some measures are taken to combat it such as I have outlined in my brief remarks to you this afternoon.

Thank you very much for your attention and patience. I would respond to any questions that you might have.

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**The Chair:** I have seven questioners. If we could limit it to one question each and if those questions could not be multiple-part questions with a long intro, please, Mr Jamison, you are first.

**Mr Jamison:** By the way, that was a very good presentation. I think it gave a very good overview of the board and its purpose and I would like to thank you for taking the time to come here and be with us.

When we talk about the price differences in brands, of course, you pointed out clearly that the premium brands are competitive in price. What I would like you to do for the purpose of the committee is to expand on what you are doing as a liquor board to really promote the board itself customer service-wise, what kinds of benefits we have in having the stores under the one banner of the LCBO and the kind of training and programs. I know there is such a thing as point of sale that is looming on the horizon. What does that mean? And again, I know that the public awareness programs are of great benefit. If you could expand, just for the sake of the committee, I think that is an area in particular where again it speaks of keeping the public's confidence in the way that liquor is distributed within the province. I think that is a major responsibility of yours, and also relates to the funds in the end result.



**Mr Brandt:** We have attempted to merchandise in a more modern way, because obviously the LCBO had to change, as did many other retailers over the course of the past few years. To respond to Mr Jamison's question, if you look at a typical LCBO store today, it bears very little resemblance to what you saw 10 or 20 years ago.

One of the things we have added to our stores in terms of features is the Vintages stores, which now cater really to those in our communities who have an affection for wine and food and by any argument that one could raise are not abusers of alcohol products but have a refined taste and want to enjoy better wines from virtually all over the world. We have experts on staff who are trained who I will compare with any employees of any similar kind of operation anywhere in North America, who can provide advice on the wines of the world, if you will, in addition to Ontario wines, those that we purchase from France or Germany or Italy or any of the other countries that we import wine from. So our Vintages stores as well as the Vintages section of some stores are a major step up in terms of service.

We provide services like French-language services in our stores, which are not provided, obviously, by many other jurisdictions. Any of the information that is available in LCBO outlets is available in quite the same way as it is here at the Legislative Assembly. We provide a direct hotline information service if you have a special function, if you have a wedding celebration or some kind of family celebration that you require some liquid refreshments and you want advice on how to get a licence or how to purchase the product or whatever. We handle something in the order—and I am guessing at this number—of 7,000 calls a month on just questions relating to our store operations, perhaps a question as simple as what kind of wine goes best with a particular type of food product.

The liquor control board, in addition, has as one of its mandates a very important function economically that Mr Kwinter will be aware of in his former role as Minister of Industry and Trade, and that is the support of the Ontario wine industry and the grape growers. That has an agricultural component to it, but we do our level best to promote Ontario products within our operations, because I need not tell you, it is an employment question as well as a question of trying to expand and to enhance an indigenous Ontario industry which is vitally important. You can see the kind of advertising campaign that the wine industry is involved with at the moment where they have a new slogan, "We're Ready When You Are," trying to encourage people to not buy an imported product but to buy a local Ontario product. We become part of those kinds of efforts, if you will, in order to sell those particular types of products.

We have a no-hassle return policy. If you are not happy with an LCBO product, you can bring it back. That is just not available in a US jurisdiction in most instances, but if you buy a product from us, you can bring it back. We would rather you did not, but if you do, we will give you the cash back for it.

Those are the kinds of things that we are involved with, and I would maybe bring Mark Synnott forward, if you would for a moment, Mark, if you would join me here and perhaps expand on the point of sale, which is part of our

new computerized and modernized upscaling of some of our stores. Mr Synnott, who heads up finance with the staff, would be able to respond to that, I believe.

**Mr Synnott:** The primary objective behind this new system is to improve customer service at the checkout counter. It gives things such as the automatic call-up of price so that the customer is processed in a shorter time period across the counter. It is also intended to provide better access to and knowledge of what inventory is available so that if the customer wants to inquire about a product, he can get immediate access as to what is in the store. It is also designed, in the long run, to help us manage our inventories more effectively so that we can make more effective use of the province's dollars that are invested in the LCBO.

**Mr Brandt:** Just to expand briefly on that, about a third of our 622 stores have now been equipped with this more sophisticated type of checkout system, and we are doing a few of those every week. Eventually, the new system will be placed on that particular point-of-sale computer system. So that is what we are moving towards and I hope it responds to your question.

**Mr Sutherland:** I wanted to ask about duty-free stores, because liquor products you can purchase at duty-free stores but beer you cannot purchase. Can you explain how that arrangement works and what revenue the LCBO gets from that?

**Mr Brandt:** We get a slightly reduced revenue because of the competitive nature of a duty-free store, but your observation with respect to beer not being available is in fact not correct.

**Mr Sutherland:** Is that right? I have not been over a duty-free in a while.

**Mr Brandt:** I know that you probably would not be a consumer of that product.

**Mr Sutherland:** No comment.

**Mr Brandt:** So I just want to mention to you that products of the two major breweries in Ontario are available. I do not believe any of the microbrewery products are available. If they are, they are very limited.

**Mr Sutherland:** Is a wide selection of beer products available?

**Mr Brandt:** No, just the two majors, Labatt's and Molson's.

**Mr Sutherland:** I mean all of Labatt's products, all Molson's.

**Mr Brandt:** Not usually. It is limited.

**Mr Sutherland:** Could you just clarify?

**Mr Brandt:** It is limited not because of anything we do as a board, it is limited because of space limitations within the geography of the store itself. But I think your question is more directed at the pricing situation. In order to be competitive with the United States, and recognizing that this is a product which is exported and never sold again in terms of Ontario—in other words, it is driven out of the country and is consumed somewhere other than Ontario.



have to be somewhat more competitive price-wise. So it is how those products are marketed in duty-free shops.

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**Mr B. Ward:** First of all, I would like to congratulate you on your appointment. I think you are doing a fine job and I would hope that you can continue on in a successful manner.

We are here primarily to talk about cross-border shopping and the problems that our border communities are experiencing with the consumers going across the border into America to purchase a number of items. There have been a number of suggestions made by various groups on methods that we could use to discourage that type of endeavour. One suggestion has been to reduce the amount of tax on gasoline along the border areas. The one concern I have is that, and I do not know if it is shared with everyone in this room, is that unless you control the direct cost, there is no guarantee that savings of any tax reduction will be passed on to the consumer, simply because you do not control the cost. Those are private sector initiatives, and they will charge whatever the market will bear.

However, under the LCBO we do have a monopoly that is controlled by the government. I think that part of the selling point of going to America is the so-called cheap booze. In America in fact some stores sell certain brands at a loss to encourage you to go in and perhaps buy milk or eggs or whatever along with it. From an administration standpoint, and I do not know if you can answer this or not, is it possible for us to have a reduction in price of alcohol—and I am talking on a broad basis of our LCBO outlets—in the border communities, just from an administration standpoint, and would that cut drastically into the amount of revenue that the LCBO takes, recognizing that there seems to be an accelerating decrease in volume of sales along our border? I do not know if you can answer that.

**Mr Brandt:** Administratively we could do it. There is no question that we could do it in one store, we could do it in 100 stores, in 622 stores. Whatever the government wanted we could do in terms of drawing the line.

Let me revisit for a moment the numbers we are talking about; 10% of our stores would be in the geographical area that you are identifying, by definition a border store. They represent about 7.5% of sales. Wherever you draw the line in doing this kind of thing, whether it be gasoline, whether it be alcoholic beverages or whether it be bread, somebody going to be able to drive across the line and buy it—

**Mr B. Ward:** Yes, we are aware of that.

**Mr Brandt:** —from an expensive jurisdiction, like perhaps London, Ontario, compared to an inexpensive jurisdiction like Sarnia, or wherever. So that is a problem, and I do not know how you overcome that. But if your question specifically is, can we administer that, I am saying yes. Mr Synnott will probably say it would be difficult, but it certainly would not be impossible.

**Mr B. Ward:** It is possible. We are exploring all sources of opportunities that we can think of as a committee and as groups are presenting them to us to attempt to come to some type of solution to this problem. So thank you very much. It is possible. It may be some work, but it is possible.

**Mr Brandt:** Yes.

**The Chair:** Did you want to make a comment on that?

**Mr Synnott:** The current act requires national pricing across Ontario.

**Mr Brandt:** Uniformity.

**Mr Synnott:** Uniformity in pricing.

**Mr Sterling:** I was interested in your example about Sarnia, Andy, and when you said that the sales were dropping in Sarnia, one of my colleagues said to me he had not heard that you had moved down to Toronto.

**Mr Brandt:** I want to assure you, the impact of my consumption would not reflect itself in any statistical aberrations up or down, Mr Sterling, but I do appreciate your bringing it to my attention.

**Mr Sterling:** The importation of liquor from the United States: While in answer to Mr Sutherland's question you talked about the outflow, I was more interested in the inflow. I understood that you had to be out of the country for a certain period of time before you could bring in 40 ounces or whatever or one case of beer or whatever it is. Can you bring in more than that and just pay duty on it?

**Mr Brandt:** Yes.

**Mr Sterling:** Is the duty exorbitant so that you would never do that?

**Mr Brandt:** No, it is not. It is rather competitive. In some instances you can buy a product in the United States, come back, pay full duty—I am talking everything from PST, GST; add up all of the taxes—and you may still bring a product in for slightly less than what it would cost in Ontario. That kind of aberration is something that I want to look at, because if I had more time to prepare the response to the question Mr Sterling has raised, I might have had a suggestion to make along those lines. But I think it is wrong that somebody can do the sort of thing that you are getting at, namely, buy a product over there and do everything that is legal, bring it back into the province and it still costs a little bit less than what we would charge for it in Ontario. That is a bit of a quirk or an aberration that I think should be cleared up, but it is possible.

**Mr Sterling:** The question of collecting provincial sales tax has been made by other people as well. My question is, you are suggesting that we collect it on what product that is being brought in, the one being declared because you have been there for more than 24 hours?

**Mr Brandt:** Where the federal government is already collecting the federal taxes, they have a person physically in an area where they have filled out a form and that form requires a certain collection of the federal taxation which is applicable to that product. It also carries with it that voluntary element which is obviously not being pursued too aggressively by Ontario consumers, namely, the 8% sales tax.

I am saying that they could add a line to a form, a simple piece of paper, collect the 8% sales tax and Mr Jelinek could simply transfer that back to Mr Laughren here and say, "This is what we collected on your behalf." It is not unusual that one level of government would do this kind of thing as a courtesy for another level of government.



This kind of cross-relationship in a co-operative sense goes on, as we all know, in a great number of programs. But the loss to Ontario—can you imagine for a moment if we had a voluntary income tax program, and said to people, "Send in voluntarily what you think you owe us."

**Mr Sterling:** Okay. I know you do not get out very often, Andy, but I would like to get—

**Mr Brandt:** How many questions do you get?

**Mr Sterling:** I would like to get brief answers to my questions but—

**Mr Brandt:** I am trying to give you brief answers.

**Mr Sterling:** At any rate, the \$23.50, the Johnnie Walker bottle, if somebody bought that at the duty-free shop, would they get it for less than \$23.50 in the US?

**Mr Brandt:** At a duty-free shop, yes.

**Mr Sterling:** So there is no way that you can compete or compare with that kind of thing.

**Mr Synnott:** You are taking all the federal markups out of the price.

**Mr Sterling:** Their federal markups?

**Mr Synnott:** Their federal markups.

**Mr Sterling:** So it would be considerably less than \$23.50.

**Mr Brandt:** Our comparison is on a retail-to-retail basis and sometimes you will see price comparisons that may not fit directly with what I have shared with you this afternoon, but that is because of what I think Mr Ward said. Someone indicated that they will sometimes deep discount a particular product as a loss leader or as a come-on. That is a form of merchandising in the US which we cannot use in Ontario because, quite obviously, our prices are uniform across the province.

We do discount occasionally when we are closing out a product or if we have a slow-moving product and we need it out of the inventory or whatever. That product will be made available uniformly, to the extent that one can, in a number of different stores of the LCBO. So we do occasionally clear out a product that may not be repeated for our inventory purposes.

**Mr Hansen:** Mr Brandt, you answered most of the questions I was writing down here throughout.

A lot of people wait until the well goes dry, and with the cross-border shopping, that is exactly what is happening with the revenues declining here in Ontario.

I remember the beer strike that we had, I think it was 1988 or 1987. At that time it was \$2 more a case than you could buy it here in Ontario by going across to the US. With the beer strike on, the beer drinkers still went across and paid all the duty to come back. I think you are right in that sense that it should be a level playing field if you are importing. It should cost the same as here in Ontario.

The only other thing a lot of people do not see by reducing the price is that your health costs can go up if you wind up with a higher consumption. You are not really saving any money, you are spending it someplace else.

My one question, coming from Lincoln where the grapes grow, is that I have had a lot of concern from the

grape growers and the wine industry down there that domestic wines are not treated, I have been told, the same as the foreign wines. One instance: the display on shelves is less. The other issue is the purchase of the wines, where the wine is paid for. On domestic wines it is paid when sold or has gone to the LCBO store, whereas foreign wines are paid up front, so they are telling me that it is a large cost up front.

I have not written to you, I have not put this question before you, and it would be a very simple answer, but I could have it now to take back, because sometimes you do not get all the facts or sometimes they are misconstrued.

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**Mr Brandt:** Let me answer in part, and I am going to let the number cruncher who is here with me, Mr Synnott, perhaps respond to part of the question. First of all, even an advantage legally under GATT that we can give to Ontario producers is given. Keep in mind that we are a party to the General Agreement on Tariffs and Trade; we have to be in compliance with the GATT regulations. There is a constant stream of complaints that are quite opposite of the coin from those that you have offered today, sir, from other producers in France and elsewhere who think that we are unfair. To give you one example, there are roughly 225 Ontario wine stores in this province. There is not one foreign wine outlet anywhere. Legally, we are on reasonably safe grounds in that we grandfathered those stores in as outlets for Ontario product, but we have literally frozen out the foreign competition by saying "Thou shalt not have any stores in Ontario."

Second, the day I went with Mr Wiseman to open the new Ajax store, my second trip that day was to Pickering. If you went to the Pickering store, which is one of our newest modern stores, you would see a very substantial—in fact, quite huge—display of Ontario products which are well identified and, from the standpoint of shelf space, take up far more room than any of the foreign products. In terms of sales, Ontario products represent, through our operation, about 30% of the total wines sold. No question, the market is declining for domestic Ontario wine. It represents about 40% of all wine consumed in Ontario, the Ontario wine industry—the additional 10% is made up of the product sold outside of an LCBO outlet, namely an Ontario wine store, either a Brights store, you have seen them, the Chateau Gai, Andres, and those kinds of stores. So we give even a conceivable advantage to the Ontario wine industry.

Let me tell you how frequently I meet with them. I met with them yesterday. I met with them again today, and I will probably meet them on some other issue tomorrow. We meet constantly to try to find ways to market their products in such a way as to make sure that we enhance Ontario sales, Ontario products, Ontario employment and all of those other things.

I wonder if Mr Synnott could respond to the—

**The Chair:** I did not think there were any numbers left to crunch.

**Mr Brandt:** Yes, there are. There are some serious ones that I want to share with Mr Hansen, and I left them all for Mr Synnott.



**Mr Synnott:** The payment terms for Ontario wines 30 days from receipt at our warehouse. The payment for import wines is 30 to 60 days from the date of receipt at our warehouse. Generally, that means it is something like 100 days by the time it comes from Bordeaux, the time they receive payment back in Paris, so there are very preferential settlement terms with the Ontario wine industry.

**Mr Kwinter:** The LCBO case is a classic business case. If every business in Ontario was like it, we could solve this problem very easily, if we had the political will. The LCBO is a monopoly. When I was the minister responsible for it, it was the largest single purchaser of alcoholic beverages in the world.

**Mr Brandt:** It still is.

**Mr Kwinter:** It still is, which means that economies of scale certainly do not get into it. They can buy as cheaply as anyone anywhere in the world. They have the state of the art as far as a warehouse that is totally automated. Again, that opened during my administration, with no pains, but it did open, and I assume it is working.

**Mr Brandt:** Yes.

**Mr Kwinter:** It is spectacular and it was conceived, a matter of fact—

**The Chair:** It is going to be a long question.

**Mr Kwinter:** No, the point I am making, and I think it is really important, is that all of the things we are going to have to address—hardly any of them, with one exception, apply to the LCBO. You cannot say the distribution is easy. They have 622 stores, it is a monopoly, and it is all done automatically. It is all sent out, so there is no wastage there. They buy as well as anybody can possibly buy, so there is no wastage there. All the changes that they are making are not really to help them make money, they are to help address the consumers and their problems. They are not expected to have to go in, write it out and get a little brown bag and sneak it out of the store because it was a no-no to be in a liquor store. So they are doing all of those things. Again, when you talk about competitiveness, the number-one-selling whisky in the United States is Seagram's 7 Crown, so we are competitive. It is the one area where we do not do all of those things.

The one problem that we have is in the beer industry. In the beer industry, because of our interprovincial trade barriers, every single brewer has to have a brewery in every province in Canada, with the exception of PEI because it is too small. So you have provinces with a population of 700,000 or 600,000 and they have to have a brewery. That is why the cost of our beer is so high at the manufacturing level. There is a plant, and I do not know—Andy, you may know—that is in mothballs in the United States, but it probably still is. It has enough capacity in that one plant to supply all of Canada with all the beer it will ever drink and can do it very, very cheaply. So that is the one area.

So the problem that we have and the basis for the discrepancy in the liquor prices is strictly taxes—we tax differently—and the monopoly. The first question I have for you is, do you think it is a serious problem, the problem of purchasing alcoholic beverages across the border?

Is that a serious problem that could be addressed by either breaking up the monopoly of the LCBO and changing its name so that it no longer reflects the puritanical idea of control? Second, should we allow competition so that the people can go out and compete on a one-on-one basis in the free market system?

**Mr Brandt:** The component which results in a higher cost for the Ontario product is taxation. Let's face it, that is where it is at. It has nothing to do with our distribution costs, the efficiency of our operation. If you take a look at the liquor control board, look at its laid-in price for a case of product, we can compete effectively with virtually any jurisdiction in the world. We buy better than some. We are large enough, because we are the largest purchaser of alcoholic beverages in the world. As a result of that, we do get preferential treatment in certain instances, so we put our size to work on behalf of the Ontario consumer.

But if the bottom line of your question is how do we become more competitive, how do we sell if the interest of the Legislative Assembly ultimately was to sell a \$24 bottle of Smirnoff in Ontario for \$12 to compete with New York State, it is totally taxes. You will not squeeze nickels and dimes out of the other end. In other words, the total component that goes into the cost of delivering the product is all taxation.

**Mr Kwinter:** That was the point I was trying to make, that it really is not the problem with the LCBO. If you want to get a lean, mean, clean organization that has the economies of scale, that has distribution, that has everything, they are it. All you have to do is move the taxes. Unfortunately, we can apply that to hardly any other sector of the economy.

**Mr Brandt:** That is right.

**The Chair:** You mean you are not inferring that we should monopolize all the other stores?

**Mr Kwinter:** No, the point I am making is that there is no sense in doing it. That is an easy one. All you have to do is have the will to say, "We're going to cut the taxes," and we can be competitive, but you cannot apply that anywhere else.

**Mr Phillips:** I appreciate the presentation. I kind of miss your sense of humour in the place, too.

The message I got, and then I will get to the question, I was actually surprised that it does not seem to me that cross-border shopping has had a major impact on your operation. I was surprised by that. The only caveat on it is that maybe it is because it has been there for so long in liquor that it is already built in. If you have 10.5% of your stores doing 7.5% of your business, does that mean anything? If 10.5% represents population and 7.5% is sales, then maybe they have already, years ago, been shopping across it. But if that is not the case—

**Mr Brandt:** If I may interrupt you, that is an accurate observation. Part of the erosion was already built in, so part of the decline, which is slower and less dramatic today, is as a result of what we believe to be practices that have been established for a long number of years. That is an excellent observation. I should have mentioned it, but it is a fact.



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**Mr Phillips:** Thank you. I need that every once in a while. My question, though, I guess is to take advantage of your experience—I mean this sincerely—of (a) living in a cross-border area; (b) the Legislature; and (c) now running this operation. I think you have given us one piece of advice and that is, “Look at the provincial sales tax collection.” Have you any other advice, with your broader hat on, for the committee, recognizing, as some other members have said, that our goal here is to try and find something that at least over the next 12 to 24 months can help particularly our Canadian retailers survive?

**Mr Brandt:** Short of trying to go head to head with American competition, which would be very difficult for a lot of other reasons—economies of scale, methods of merchandising, costs of doing business, that are built in, that are sort of an intrinsic part of the way of doing business in Ontario and in Canada as opposed to the United States and would make it very difficult for us to compete one to one on a great number of products—I think some educating of the Ontario consumer would probably go at least some distance. I do not suggest to you that this is the entire solution, but I think there are a lot of people who think they are simply getting something cheaper, without recognizing that the quid pro quo on the other side of the ledger is that you may erode the availability of health services, you may not have an expansion of educational services and facilities, you may not be able to get some of the social welfare benefits that are available in our society, if you continue to allow this to happen.

I know that in a small way some of this is occurring. There are some retailers who are fighting back now in border communities who are advertising extensively, saying: “This is what you get when you buy a gallon of gas in Ontario. You receive certain benefits that are paid for out of that tax money.” I think we can maybe reach some people from an emotional standpoint and maybe they will be somewhat more self-conscious about going across the border to purchase when they realize it is not just a question of getting a bargain, because that bargain may whip-saw back and result, over a period of time, in erosion of the very services that they voted for in one fashion or another over the years.

The second thing I think that we could consider, and I am not just speaking of the LCBO by any stretch of the imagination with reference to this comment, but the increase in control at the border points I think has got to be something that is taken more seriously by the federal government. I do not like to be critical of another level of government, but I think that if you are going to collect the revenues which legitimately belong to a particular government, then you have got to either provide the manpower or the resources or enter into the co-operative undertakings between two levels of government to make sure that those resources are collected. I think that would perhaps dissuade certain people from making a purchase in another jurisdiction if they knew they had to pay the 8%. Technically, you are supposed to voluntarily send it in now. We know it does not happen and I think it is nonsense to even

suggest that people are going to do it voluntarily. Very taxes are paid voluntarily.

So those are a couple of ideas. I know it does not go enough to answer all of the problems that you have to address in this committee.

**Ms Harrington:** Thank you very much for promoting wines in Ontario. I represent Niagara Falls. I hope you were down to Niagara Falls for the Grande Cuvée month, for the competition of Ontario wines.

**Mr Brandt:** I was not. Some of my staff were there, was not able to be there, but I understand it was a success and one that will be expanded as the years go on.

**Ms Harrington:** You mentioned education awareness in the last little while. I believe that is something that we are all responsible to do, as to how our whole way of doing things here is wrapped up with this issue. You also mentioned increased control, which is paying the 8% tax, and I believe that is important.

Living in Niagara Falls, I know exactly what the situation is and why people go over. I do not go over for liquor but certainly one is tempted to go over for gasoline, and I believe that is the crucial thing. It was number 1 on my list as well. So what I wanted to ask you was, briefly, do you know it is not your area of expertise, but you were here for quite some time, so I think you may have an opinion—do you feel that having the concentric circles of reduced taxation on gasoline would be a workable solution?

**Mr Brandt:** Personally I do not, because I think that the tax will simply spill over to different types of circles with different types of buying patterns, but I think you have either got to do it uniformly or forget it, because I just do not know how you could break this province up into some kind of pricing zone.

In responding to the question earlier, I personally do not think it is workable. That is an opinion. I have no proof of this. But as I said before, wherever you draw the line there is going to be someone on the wrong side of the line who is simply going to slip over to what he sees as being an area that is more economically attractive. Ultimately, then, if the purchaser in London, Ontario, further away from the border finds that gas is cheaper if he drives to Strathroy or if Strathroy find the gas is cheaper if they migrate over to the great community of Sarnia, they are simply going to go to the community where it is cheaper. That is why they are going from Windsor to Detroit, from Niagara Falls to Buffalo and from Sarnia to Port Huron. That is why it is happening. They are simply jumping the line.

The same thing, I would respectfully suggest, would happen if you tried to do it within Ontario itself, and I know that some of the mayors have asked for some consideration with respect to this kind of thing. I would like to know more about their proposal, because on the surface I hesitate to say that I think it is workable.

**The Chair:** Thank you, Mr Brandt, for your presentation this afternoon. I would like to thank you on behalf of the committee for coming.

**Mr Brandt:** Thank you very much. I enjoyed it, and I am delighted to be back for a few minutes.



**The Chair:** If you have any further analyses that you think the committee could use in its deliberations, we would appreciate them being sent along.

**Mr Brandt:** I might add, Mr Chairman, any of the statistical data that we have been able to put together and research that our staff has done with respect to comparisons between communities, between regions and so forth, would be delighted to make that available to you if it is of any use to this committee. We have a great deal of material that I was not able, because of time limitations, to share with you today, but I would be delighted to make it available to the committee or to the clerk, Mr Decker, if he would like to have it so you could refer to it. I do not want to load you up with paper. Heaven knows you have got enough, but we have it available.

**The Chair:** I think that at least one copy to the researchers would be appreciated. Thank you.

**Mr Brandt:** I will see that is done. Thank you.

#### STONEY CREEK FURNITURE

**The Chair:** Our next presenter is Jim Carruthers, the general manager of the Stoney Creek Furniture store.

**Mr Carruthers:** I did bring some paper.

**The Chair:** If you would like to begin.

**Mr Carruthers:** Sure. I am not totally familiar with the rules and procedures, but I am sure the Chairman will interrupt me if I do something wrong.

I appreciate the opportunity to sit before you today and perhaps bring to light some of the situations we are facing closer to the border down the Niagara Peninsula.

In that little package that I just distributed, it gives you the background information on Stoney Creek Furniture, a company in Fruitland, Ontario.

A couple of positioning statements in terms of the values of our company: the fact that in 1989 we won the Outstanding Business Achievement Award; in 1990 we won the Corporate Citizen of the Year award.

There are a lot of statistics in there, some paper you have already seen from the Retail Council of Canada and the Canadian Federation of Independent Business. In my presentation I am trying to stay away from percentages, numbers and facts. You have got all that, and I am sure you have digested it at your leisure.

I would like to give you just a little bit of background on who we are and the problems that we are facing. I sit before you here today wearing a few hats. I am a Canadian citizen. I am a Canadian consumer. I am general manager of Stoney Creek Furniture, representing a group of 46 dedicated staff members. I am also a former board member of the Canadian Home Furnishings Association and I still am actively involved as a member, so you will forgive me if I go from first person singular to plural once in a while.

As Canadian citizens, my family and I have decided not to utilize our buying power in border cities. It is a personal decision. I fear we are really in the minority. We reached this decision not because we have a lot of money and can afford to be patriotic. We figure that at some point

in time, as revenues evaporate, the provincial Treasurer is going to come after us and get some more somehow.

A good number of my staff at Stoney Creek Furniture do shop in northern New York. It is their effort to stretch their after-tax dollar. It is a personal decision, and they look at it as, everybody is doing it. I make no judgement. If you walked into our cafeteria and opened the fridge, you would see label after label of Tops Friendly Markets. As Mr Brandt was saying, most of them buy their booze in the States.

I also come before you representing one of the best teams in furniture retailing in North America. I do not mean that to be an arrogant statement. It is a statement of fact recognized in many international trade publications. You have, within the package in front of you, testimonials as to our accomplishments on a local level. However, we are recognized at the international level as a star in our industry. We are a successful company. We are an innovative group of people. We are a profitable company, and we have an extremely dedicated team.

But guess what? We cannot compete. Twelve to 24 months from now, unless the rules are changed, we will not be around. We can compete for the consumer dollar locally, but we cannot compete across the border. The cost of doing business in upstate New York, it is in those reports you have in front of you, is low, and there is nothing we can do about that. We are very good at our jobs, and no, we cannot compete.

We belong to the Canadian Home Furnishings Association, to a buying group and to the American-based National Home Furnishings Association. Within that umbrella group, we are able to exchange a lot of information, quite a bit of it financial, and we see that we are one of the best at managing our assets, a great group of people, and we cannot compete, and it is frustrating.

We manage our expenses carefully, but it is the overheads that we cannot control that are doing us in. We do not come before you looking for dollars, handouts. We know we will never really get a level playing field. For the comprehensive programs that are available to Ontarians, we realize there is a cost, but we do want more. We want leadership. We want you to cross your party lines. We want you to negotiate with the municipalities. We want you to show some leadership to our federal government. One of the levels of government must decide to lead and the time for action is now.

Almost every day of the week, my staff is challenged by a customer to beat a competitive price from south of the border. It is not profitable for us to take that order and try and meet that price. However, our direction is exactly that. That is what we do. We then remind the customer that it is his or her responsibility to report a purchase made in upstate New York and pay the provincial sales tax. You know what the answer is: "No way."

We try to meet the price and then we have to collect and remit the provincial sales tax. Their response, without exception, is the same: "Eat the tax. We are not going to pay it."

Furniture stores average a 2% profit in North America. The numbers are fairly consistent in Canada. We do much better, but we cannot afford to swallow 8%. Profit dollars fuel everything we do. Investment in product, investment



in people, investment in physical assets and a return of investment to our community. We must be profitable to grow and we must grow if we are going to survive. Given the current set of rules, more and more of our customers will turn to the United States to take advantage of lower overheads and cheaper prices. Please be reminded that the retailers south of the border do not buy anything cheaper. They are not better merchants that we are. It is simple: Their cost of doing business is less.

The trickle of consumers migrating to the United States has become a flood. They will not be deterred by traffic jams and long lineups. Our customers are not trying to save a few dollars on eggs, gasoline, shirts or a bottle of Smirnoff. They will put up with the hassle because when they go down there to buy furniture, they are saving hundreds and, in some cases, thousands and thousands of dollars on big-ticket purchases.

Our industry research indicates the cost of doing business just south of the border, just across the border from us in Niagara Falls, is about 40% less than southern Ontario. I believe that is referred in one of the handouts I gave you. Our wages, our property values, our benefits, taxes, interest rates are higher and beyond our ability to control. We are an efficient company, but we cannot compete.

The goods and services tax is not the culprit. The elimination of the federal sales tax on furniture has resulted in a net saving to the consumer. Artificially high interest rates are not the culprit either. It is a waste, it is a nuisance; however, we personally manage our assets well and have actually reduced our borrowing costs in the past year.

A lower Canadian dollar is not the answer. Free trade has devastated the Canadian furniture manufacturing industry to such an extent that we import 70% of the products we sell from the United States. If the dollar depreciates, our costs go up.

Lowering wages is not the solution. Our staff earn every dollar they make and they deserve more. Sunday shopping alone will not stem the flow of traffic south of the border; however, it would eliminate a competitive disadvantage.

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The list goes on—problems without solutions, questions without answers. Fundamental changes are required to allow Canadian business to compete, most beyond the power of this provincial government. But one power you do have and one change which is required immediately is the power to collect the 8% provincial sales tax at the border. This action is required without delay. It is a competitive disadvantage we can no longer tolerate and survive even in the short term.

I do not expect the members of this committee will lose a moment's sleep tonight over the loss of 45 retail jobs at Stoney Creek Furniture. It will not happen tomorrow, and it will not happen next week. Unless the rules change, it will happen. We will not go bankrupt. We will simply close in Canada and we will open in the United States. And guess what? It is a great team. We will be very successful. The fact that I hope you will find particularly chilling is, we will be one of the last to go and thousands will have gone before us.

**Mr B. Ward:** Thank you very much for your presentation from a business person who is trying to survive these tough times. You mentioned that the prime cost would be the collection of the PST at the border, from your perspective. Recognizing that the government has to collect every dollar we spend, do you feel it would be a wise expenditure for the provincial government to establish an administration that is necessary to collect the PST at border points? Do you think that would be a wise expenditure on this government's part?

**Mr Carruthers:** I see no reason why the money should not be collected. The GST is being collected at the border. I see no reason why the federal government cannot act as an agent for the provincial government.

**Mr B. Ward:** But if they are not willing to co-operate with us, do you think that would be a wise expenditure for this government to undertake?

**Mr Carruthers:** Is the general public aware of this?

**Mr B. Ward:** I am not sure if they are or not. But another question is dealing with the taxes in America. We know why we are taxed the way we are, but why do we think the tax levels in America are the way they are?

**Mr Carruthers:** There are a variety of services we receive as Canadians, and my family lives here and would like to stay here. We enjoy this country. We enjoy the services that are offered. We know why the tax base is different in Canada.

**Mr B. Ward:** I am not talking about Canada. Why do you think it is the way it is in America?

**Mr Carruthers:** The cost of living has a lot to do with it. The tax structure is just totally different than in Canada. My driver makes \$14.50. The driver for—

**Mr B. Ward:** That does not have anything to do with taxes.

**Mr Carruthers:** I am just answering the question, because it has to do with after-tax income. The driver for my competitor in Buffalo makes \$8.50 and enjoys a fairly good standard of living, pays less personal income tax than my staff members do or I do as an individual.

**Mr B. Ward:** Okay, but why? Why are the taxes lower in America?

**Mr Carruthers:** I would assume that it is more efficient. We have three levels of government taxing us: death as business people. Our municipal taxes have gone from \$98,000 to \$216,000 in three years. Our business taxes are up.

**Mr B. Ward:** Okay, so you are suggesting that the taxes in America—I am trying to clarify—are lower simply because you feel their governments are more efficient, because of the service they provide or the way they operate as far as government entities is concerned.

**Mr Carruthers:** You are probably asking me a question that is a little bit out of my scope, and I have to be able to refer to this.

**Mr B. Ward:** Okay. So you are not sure then.

**Mr Carruthers:** No.

**Mr B. Ward:** Okay, good.



**The Chair:** I can give you one point. In the United States, especially in the southern United States, the average salary for a master's degree teacher is \$14,000. The average salary for an Ontario teacher with a master's degree, 5 or 16 years of service, is \$60,000.

**Mr Kwinter:** My wife is a schoolteacher. She makes more money than I do.

**Mr Phillips:** The big money is in the pension. The teachers have a pension second only to ours, in the world.

**Mr Sutherland:** I wanted to ask you a couple of questions, because some of the evidence you put forward is a different opinion than what we have heard. Before I do that, I want to compliment you first on your sincere dedication in terms of trying to make an operation go here and very innovative ways that you have been operating.

You said that American merchants are not better than Canadian merchants, yet we have heard there is evidence to suggest that people's perception is out there. We had a presentation earlier this morning that said that people are cross-border shopping to survive, and you certainly indicated your staff in terms of going over the border for basic commodities, food items, that type of thing, trying to stretch their dollar. But how do you explain furniture, electronics, VCRs, electronics, if people are going across the border to survive? How do you explain the big-ticket items like luxury items like VCRs and electronics? I mean, the argument that people are going across the border to survive and they are buying VCRs and electronics, it does not really wash with me.

**Mr Carruthers:** I do not think I was making the argument that people are going across the border to shop—

**Mr Sutherland:** No, someone else did and I was just wondering whether you separate the two, from going for food to going for the other items.

**Mr Carruthers:** No, I do not look at it and I have never had it explained to me by anybody I have met who shops across the border that he looks at it as survival. They look at it as stretching their dollar, more bang for the buck. In the case of durable goods, in the case of big-ticket items, it has not been all that well publicized that it is opening. But once it is and you see the big dollars that are involved, not that you are saving 50 cents on a dozen eggs—\$10,000 dining room in my store can be purchased for \$10,000 in Buffalo, and we are operating on exactly the same gross margin.

**Mr Sutherland:** Could you comment then on the marketing aspects, the merchandising aspects of Canadian retailers versus American?

**Mr Carruthers:** I would like to first put on my Stoney Creek hat and answer that from our perspective. Okay? We are good merchants. I made the point I did not want to sound arrogant, but sometimes we are.

The American retailers in our industry were up here in January at a conference—and I think this might put it in perspective for you—at the Bristol Place Hotel, by the airport here in Toronto. They had heard so much about our store they wanted to come out and see it. There was a blizzarding snowstorm. It took us two and a half hours to get

to Stoney Creek to show them the store. I did a little head count. Those retailers who went through that blizzard to come and see Stoney Creek Furniture were responsible for over \$2.5 billion retail in furniture. They wanted to come and see how we did things because they had heard so much about us.

It is very difficult for me to comment on other furniture retailers. There are some very good ones. I have been involved with other retail companies, survivors, profitable companies that do a heck of a job, very good merchants, and there are some out there that are borderline. It is like any other industry.

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**Ms M. Ward:** Are you simply retail? I had the impression at first that you were furniture makers also.

**Mr Carruthers:** No.

**Ms M. Ward:** I was thinking it is different than all the other presentations we have heard, because one of the things that really bothers me is, I cannot go to the store and buy a Canadian product very often. As a matter of fact, I am without a vacuum cleaner right now because I have not found a Canadian one. I thought you were—

**Mr Carruthers:** I used to be a furniture manufacturer, but I saw the writing on the wall and I got out.

**Ms M. Ward:** Okay. Anyway, I had that impression, but you have cleared it up now. Thanks.

I just wanted to ask you to expand on something you said. You were saying to us that we should show some leadership to the feds and to negotiate with the municipalities. Did you have any specific recommendations there?

**Mr Carruthers:** It stems back, I guess, to a comment the Chairman made to me before the meeting, that you are not getting a lot of co-operation at the federal level. I made the comment earlier, is the general public aware that we are trying to harmonize the taxes? But looking at the cost structures, in business, in trying to compete, I look at these reports that you have seen before and you know what taxes we pay. You know what our competitor is paying. The three levels of government have to work in co-operation if they want us to stay in business in Canada.

**Ms M. Ward:** So it is taxation you are speaking of mainly.

By the way, where does your furniture come from?

**Mr Carruthers:** Seventy per cent of it is from the United States.

**Ms M. Ward:** There have been several companies lost, have there not, in the last few years in the furniture manufacturing business?

**Mr Carruthers:** About 40% of the industry is gone.

**Mr Phillips:** You have sort of painted a doomsday scenario for us here, I think, as I listened to it. I have some sympathy with what you are saying. I think many think a lower Canadian dollar will be a panacea for our challenges, and get the interest rates down a little bit and it will all go away. I think we have got some long-term economic issues.

I am looking for short-term solutions, though, because things that you are talking about are very long-term and will take a long while to work their way through, if ever.



But your short-term solution is the collection of the provincial sales tax. In fairness to the federal government, I think what it might say when it is at the table is it is anxious to harmonize the two taxes. But I think the government does not want to do that.

**Mr B. Ward:** As a clarification, they have refused to collect that tax unless we harmonize.

**Mr Phillips:** No, I am just saying that they said, "Listen, can't we get together and collect provincial and the GST together?" and I think the government said: "No, we won't do that. We have no intention of doing that."

**Mr B. Ward:** But they can still collect at the border.

**Mr Phillips:** I am saying it is very difficult for this government to say, "In 98% of the cases, we don't want to be involved with you, but in the one case where it's in our interest, please harmonize." I have no brief with the federal government. I am just saying if they were sitting here, they would say to you people: "Wait a minute. In the 99 or 999 cases where we want to be more efficient and work with you to collect it together you say no, but in the one case you want, for other reasons, to harmonize it." I think you may have to make your minds up on that one. I am just saying that therefore you suffer because of squabbles between two levels of government.

**Mr Hansen:** Mr Chairman, may I interject something? In New Brunswick, where the government is willing to collect the GST together, still at the border it is not being collected.

**The Chair:** Saskatchewan.

**Mr Hansen:** Saskatchewan? So we just cannot take a look at Ontario and other provinces.

**Mr Phillips:** That is one recommendation, the provincial sales tax.

**Mr Carruthers:** That is a short-term solution.

**Mr Phillips:** The long-term ones are competitiveness and all those things that are going to be long-term, but how else can we help organizations like yours survive until the long-term one sorts itself out?

**Mr Carruthers:** I do not really have a suggestion for you. I do not think you want to artificially prop up merchants. The retail community has to be very liquid. It has to be able to move and shift with changing situations. As a general rule, Canadians are pretty good at that. I am taken aback a little bit by one of the comments I heard earlier, that somebody had sat in front of this committee and said, "Canadians aren't very good merchants." There are several examples of very good merchants here. The strong will survive in a free market system, but we need more of a level playing field. Those Canadian merchants who are good will survive and they will demonstrate to everybody that, given a level playing field, they will compete with the best.

**Mr Phillips:** But the short-term one is the provincial sales tax.

**Mr Carruthers:** In the short-term situation there is the provincial sales tax. And we have to stem the flow of people going down to the border on Sundays, so we have to have Sunday shopping as well.

**Mr Phillips:** How far Sunday shopping? I assume you are in Stoney Creek? That seems like a bizarre thing to

**Mr Carruthers:** Actually, I live in Thornhill; I am in Stoney Creek. During the week, and I mentioned to the Chairman before, it takes me an hour to drive to work. When we were open on Sundays, it took me an hour and three quarters, and that is strictly all the people leaving Ontario heading for Niagara Falls and Buffalo to go and spend money. You are not getting any revenue from those people because they are spending it in upstate New York.

**Mr Hansen:** Are you finding a problem with merchants or stores in New York state shipping furniture into Canada? Are the consumers bringing back the furniture themselves?

**Mr Carruthers:** Both.

**Mr Hansen:** So actually when it comes down to it, the firm that could be in New York state would be reduced by the 4%—I believe it is 4%—New York sales tax. They are rebating that, plus you are not paying the 8%, so you are talking about 12% savings by shopping in New York state.

**Mr Carruthers:** It is even more than that. We have shopped the stores in the Falls and Buffalo quite extensively. Basically what it is, and what we would call predatory pricing in Canada, is predatory pricing. They have shopped southern Ontario stores quite extensively as well. They know what our prices are, they know what our margins are, they know what our costs are with the material cost of the product because in a lot of cases it is exactly the same.

**Mr Hansen:** Is it the same product that is being chased over there, the same manufacturer?

**Mr Carruthers:** I think a lot of it is.

**Mr Hansen:** Because we have been told that a lot of products that are coming into the border towns are "scratch and dent" items also and lower quality.

**Mr Carruthers:** Those retailers who are doing that will find out very rapidly that Canadians will not accept that. Canadians want a better-quality product. That is a generalization which I try to stay away from, but I have been in both ball games and I can speak from experience. Some of the lower-end product that is produced in Mississippi, Louisiana just will not wash in Ontario; it is not what we are used to. Now what we have is a situation where the same product is on a retailer's floor in the Falls, US, and Stoney Creek Furniture. We try as much as we can to differentiate ourselves and eliminate that type of situation. I have shopped those stores. I have gone in. They do not know who I am. "What is the price on that sofa?" They give me the price. Then, upon being informed that I am Canadian, they go get the sales manager and they have to give me inside price for Canadians. It is found money to them; it is increased market share.

If you tried that at the manufacturing level, we could put a stop to it because it is called dumping. At the retail level there is no legislation—we have checked it out—it does not cover it.

**Mr Hansen:** This is what I am saying. On top of that they are saving the New York state sales tax, plus if it is being shipped in by that particular company they are saving 8% at the border, so you have got, say, another 12% to a



top of that. That is where you have lost your competitive edge. This is what we are looking for, exactly all these things—that they are discounted because you are Canadian, and all these tax savings—so it winds up they will freeze you out sooner or later. This is what it looks like we are living here.

**Mr Carruthers:** If you take it one step further than that and you say that the person driving that truck, delivering that furniture out of upstate New York is making \$8.50 an hour, I think we would all agree that you really could not enjoy a very good standard of living in Ontario at \$8.50. That truck is also full of gas that was purchased at \$1.20 a gallon. I have six trucks on the road today from Stoney Creek Furniture and they were all at 55 cents a litre. That opens every day of the week.

**Mr Hansen:** And the one problem is that the fellow driving the truck does not want to get sick and go in the hospital in New York state either.

**Mr Carruthers:** True.

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**Mr Sutherland:** When you are talking about the retailing costs being a cheaper rate in Buffalo, have you gone further inland in the US to do any comparison there?

**Mr Carruthers:** Oh, sure.

**Mr Sutherland:** Is it equivalent or is it just selective, aggressive retailing and discounting at the border?

**Mr Carruthers:** I asked the merchandise manager for Sagan and Raymour. They have 26 stores in upstate New York. I met him in North Carolina last Sunday. He said: "Jim, we're exploiting a competitive advantage. That's all we're doing. It's business. It's not personal." Whether you go south, as a matter of fact, the cheaper the prices get down into the Carolinas.

**Ms M. Ward:** Is there still a duty on furniture? If so, what is it? Is it one of the ones that is reducing?

**Mr Carruthers:** It is 6% and it will be phased out over the next two years.

**Ms M. Ward:** What was it originally?

**Mr Carruthers:** It was 15%. Basically, what it meant to us as retailers three years ago was that we would not receive a price increase from American manufacturers for three years, assuming that their price increases would be around the 3% level, which has been fairly consistent, so that has been one of the reasons for the demise of the Canadian manufacturer. I do not think our inflation has been running at zero for the last five years.

**Mr B. Ward:** The manufacturing taxes too.

**Mr Hansen:** I have one other question. You were saying earlier that if the American dollar went down, that would hurt your business even more. But the other thing, looking at it, is that possibly a Canadian product could come back

on the market produced here in Canada to compete with American furniture. Would you see that price-wise?

**Mr Carruthers:** No. As a Canadian I would like to see that, but my experience is that that would not happen. The margins that are available in manufacturing and the manufacturing industry do not justify going back into the business, spending all of that money, all that high technology that is available. It would be very expensive.

**Mr Hansen:** That 40% of the Canadian market, I do not know what is covering all furniture lines. If the Canadian dollar did drop, there is a possibility you could get an increase in Canadian sales. People would not be shopping across the border as much because of the lower Canadian dollar. The other thing is that they would be more likely to purchase a Canadian product because it would be a lower price than the competitive American product coming into your store.

**Mr Carruthers:** I doubt that. Again, I would like to see that but I would doubt it because the capacity would not be there in the Canadian industry to meet the demand. And once again, the economies of scale at the manufacturing level are quite different from those at the retail level, where you have open-shop states and a fabric cutter is making \$6.75 to \$7 an hour versus an upholsterer in Concord, Ontario, who is trying to hire at \$23 and he cannot get anybody.

**The Chair:** Thank you for your presentation.

**Mr Carruthers:** I promised the fellows back at the store I would bring one other thing to your attention, and I hope you will take the message back with you with the sincerity in which it is delivered. I walked in this morning and looked in my mailbox. Before the drivers and helpers had gone out on the road this morning they had left a little petition. I am sorry I left it back in my office. It is signed by everyone and it says: "Jim, do your best. We'd like to stay in Canada." Thank you very much.

**Mr Phillips:** Well done.

**The Chair:** Okay. Should we ask the Treasurer to come in and do a post-budget presentation next Thursday?

**Mr Phillips:** Agreed.

**The Chair:** It is a normal activity for this committee to ask the Treasurer to come in, since we did the pre-budget consultations.

**Clerk of the Committee:** We have no more witnesses scheduled on this.

**The Chair:** We actually have no more witnesses scheduled, so we can have the Treasurer come in next week to discuss the budget. It can be either in the morning or in the afternoon. In the other time slot we should discuss some of the recommendations and perhaps give direction to research and have those drawn up for us.

This committee is adjourned till next Thursday, 10 o'clock.

The committee adjourned at 1725.

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**Substitution:**

Harrington, Margaret H. (Niagara Falls NDP) for Mr Christopherson

**Also taking part:** Turnbull, David (York Mills PC)

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Anderson, Anne, Research Officer, Legislative Research Service  
 Rampersad, David, Research Officer, Legislative Research Service









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